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AN INQUIRY
INTO THE
PRINCIPLES
OF
POLITICAL ECONOMY.

BEING AN
ESSAY ON THE SCIENCE
OF
Domestic Policy in Free Nations.

IN WHICH ARE PARTICULARLY CONSIDERED
POPULATION, AGRICULTURE, TRADE,
INDUSTRY, MONEY, COIN, INTEREST,
CIRCULATION, BANKS, EXCHANGE,
PUBLIC CREDIT, AND TAXES.

By Sir JAMES STEUART, Bart.

Ore trahit quodcumque potest atque addit acervo.
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AN INQUIRY
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OF
POLITICAL ECONOMY.

BOOK IV.
OF CREDIT AND DEBTS.

PART I.
OF THE INTEREST OF MONEY.

INTRODUCTION.

I COME now to inquire into the principles of credit ; a subject already introduced in the 27th chapter of the second book, where I examined the nature of circulation, and pointed out the principles, which direct a statesman when and how to retard or accelerate its activity, according as the political interests of his people may require.

In that chapter the object was, when and how either to extend or restrain the use of credit, according to political circumstances. The question now comes to be, what that credit is ; upon what

it is founded ; what the various species of it are ; what the methods of establishing and extending it, while in its infancy and vigor ; how to sustain it when overstretched ; and last of all , how to let it fall as gently as possible, when by no human prudence it can be longer supported ?

Many political writers in treating of credit, represent it as being of a very mysterious nature ; owing its establishment to a confidence not easily accounted for, and disappearing from the slightest unfavorable circumstances.

That credit, in its infancy, is of a very delicate nature, I willingly allow ; as also that we have many examples which confirm the sentiments of those who believe it to contain, in itself, something very mysterious : but this proves no more, than that, in such cases, credit (as I consider it, and as it will appear really to be) has not been properly established. The cause of confidence has had nothing in it but opinion, and when this is the case, credit is but a shadow ; a thin vapor, which may be dissipated by the smallest breath of wind.

They all agree that credit is no more than confidence, but they do not examine how that confidence is to be established on a solid foundation.

The operations of credit are incompatible with the involved contracts of the law, and with the spirit of intricate land-securities. The policy of such contracts was analogous to the manners of the times which gave them birth. Trade is a late refinement, in most nations of Europe, and industry is still a later : the beginnings of both are slow, imperceptible,

and obscure. The instruments by which they are promoted, are the lower classes of a people; such individuals appear to be of very small consequence; and yet it is by the accumulation of many small things only, that this huge fabric is erected.

To establish that credit, which is necessary for carrying on so great a work, a statesman must lend his hand. He must give a validity to mercantile obligations, which have no name in his law books: he must support the weak against the strong: he must reform the unwieldy procedure of courts of justice: he must facilitate the sale of property: he must establish the credibility of merchants books regularly kept: he must discourage frauds, and support fair dealing.

When such a plan is once established, confidence will find a basis in the property of every individual who profits by it. When it is not established, credit will appear like a meteor: intelligent and crafty men will avail themselves of it, and thereby dazzle the eyes of the public, with gilded schemes of opulence and prosperity: mankind will fly to industry, confidence will be established; but as there will be no method of determining the bounds of that confidence, the promoters of the scheme will profit of the delusion: confidence will vanish; and the whole will appear to have been a mystery, a dream. Is not this a representation of many projects set on foot since the beginning of this century? What were the South Sea's and Mississippi's, but an abuse of confidence? Had ever the *cause* of confidence

been examined into, would ever such extravagant ideas have arrived at the height they did?

Credit therefore must have a *real*, not an *imaginary* object to support it; and although I allow that in all operations of *mercantile* credit, there must be something left to chance and accident; yet that chance must bear a due proportion to the extraordinary profits reasonably to be expected from the undertaking.

From this it appears, what an useful speculation it is to inquire properly into the nature of credit; to deduce with accuracy the principles upon which it is founded; to banish mystery from plain reason; to show how every the most surprising effect of credit, whether tending to the advantage, or to the hurt of society, may easily be accounted for; and, which is the most useful of all, to point out how such effects may be foreseen, so as either to be improved or prevented.

In going through so extensive a subject, as a deduction of the principles of credit, method is very necessary; and when a detail is long, subdivisions are very convenient. I have, upon this account, divided this book into four parts.

The first shall be set apart for deducing the principles which regulate the rate of interest; because this is the basis of the whole.

The second, for the principles of banking; under which I shall have an opportunity to unfold the whole doctrine of domestic circulation.

The third, for those of exchange; which is equally well calculated for carrying on foreign circulation;

and as to what regards debts, and the borrowing of money, with all the consequences which they draw along with them, these important objects will furnish ample matter for

The fourth and last part, which shall treat of the principles of public credit.

These premised, I proceed to the definition of credit.

C H A P. I.

What Credit is, and on what founded.

CREDIT is the *reasonable expectation entertained by him who fulfils his side of any contract, that the other contracting party will reciprocally make good his engagements.*

To illustrate this, we may say with the lawyers, that as all contracts may be reduced under one of the following heads, *Do ut des, do ut facias; facio ut des, facio ut facias*; so he who actually gives or performs his part, is the creditor, or the person who gives credit; and he who only promises to give or perform, is the debtor, or the person who receives it.

Credit, therefore, is no more than a *well established* confidence between men, in what relates to the fulfilling their engagements. This confidence must be supported by laws, and established by manners. By laws, the execution of formal contracts may be enforced: manners, alone, can introduce

that entire confidence which is requisite to form the spirit of a trading nation.

Credit, in its infancy, must be supported by statutes, and enforced by penalties; but when it is once well established, every recourse had to law, is found to wound the delicacy of its constitution. For this reason we see, that in certain nations, the legislator wisely excludes the ordinary courts of justice from extending their rigid jurisdiction over mercantile engagements: they leave to the prudence and good faith of men versed in commerce, to extricate the combinations which result from such transactions; because they are to be interpreted more according to the constant fluctuation of manners, than to the more permanent institutions of positive law.

The more the jurisdiction of the statesman is unlimited; or in other words, the less the power of any sovereign is restrained, by the laws and constitution of the state he governs, the more it behoves him to avoid every step of administration which can make his authority be felt in cases where credit is concerned. If he should happen, for example, to be a debtor himself, he must take good care never to appear in any other light to his creditor. The moment he puts on the sovereign, the same moment all confidence is lost. For these reasons, we have hitherto had few examples (I might perhaps have said none at all) where credit has been found *permanently* solid, under a pure monarchy.

But we must observe, at the same time, that the stability of credit is not incompatible with that form

of government. At certain times, we have seen credit make a surprising progress in France; and it has never suffered any check in that state, but from acts of power, which I think have proceeded more from inadvertency, and want of knowledge, than from a design of defrauding creditors. These may be looked on as blunders in administration; because they have constantly disappointed the purpose for which they were intended. Let me prove this by some examples.

The arret of 21 May 1720, (of which we shall give an account hereafter) destroyed in one day the whole fabric of credit, which had been erected in France during the course of three years; and which in so short a time had mounted to a height hardly credible. I say, that in one day this inadvertent step (for no real injury was intended) destroyed the credit of 2,697,048,000 livres of bank notes, (above 120 millions sterling) and of 624,000 actions of the East India company, which (reckoned at 5000 livres a piece, the price at which the company had last sold them) amount to 3,120,000,000 livres, or above 140 millions sterling. Thus at one blow, and in one day, 260 millions sterling of paper currency, payable to bearers, was struck out of the circulation of France; by an useless and inadvertent act of power, which ruined the nation, and withered the hand which struck it: an event too little understood, and too little remembered in that kingdom.

This plainly appears from their late conduct; for in the end of 1759, at a time when the credit of France was in so flourishing a situation as to have

enabled her to borrow, that very year, near 200 millions of livres; and when there was a prospect of being able to borrow, in the year following, a far greater sum, the shutting up what they called their *caisse d'amortissement*, for the sake of withholding 32 millions of livres interest due to the creditors, struck all credit *with foreigners* dead in one instant.

These examples show what fatal consequences follow a misjudged exercise of power in matters of credit.

On the other hand, the rapid progress of credit in France before the Mississippi, and the stability of it from 1726 to the year 1759, abundantly proves, that nothing is more compatible than monarchy and confidence. All that is wanting is the establishment of *one maxim in government*; to wit, that the King's power is never to extend so far, as to alter the smallest article of such stipulations as have been made with those who have lent money for the service of the state.

Maxims in government bind the monarch and the legislature, as laws bind subjects and subordinate magistrates: the one and the other ought to be held inviolable, so far as they regard credit; or confidence will be precarious.

What has supported the credit of Great Britain, but the maxim constantly adhered to, that the public faith pledged to her creditors is to be inviolable?

Does any one doubt, but the legislature of that nation may sponge out the public debts with as much ease as a king of France? But in the one kingdom, the whole

nation must be consulted as to the propriety of such a step; in the other, it may be done at the instigation of a single person, ignorant of the consequences: but I hope to make it appear; before the conclusion of this book, that it is impossible to form a supposition, when a state can be benefited by deliberately departing, for one moment, from the faith of her engagements. A national bankruptcy may (no doubt) happen, and become irreparable; but that must be when the state is emerging from a signal calamity, after having been involved in ruin and confusion.

Confidence, then, is the soul and essence of credit, and in every modification of it, we shall constantly find it built on that basis; but this confidence must have for its object a *willingness* and a *capacity* in the debtor to fulfil his obligations.

C H A P. II.

*Of the Nature of Obligations to be performed, in
Consequence of Credit given.*

WE have already said, that all obligations contracted with a view to be performed in future time, consist in doing or giving something, in consideration of something *done*, or *given*.

When actions only are stipulated in contracts, *credit* (in a strict acceptation of the term) is little concerned; because no adequate security can be given for performing an action: such contracts stand wholly upon the willingness and capacity of *acting*,

which depend more upon the *person* than upon the *faculties* of the debtor. To supply that defect, we see penalties usually stipulated in such cases; which reduce those contracts to an alternative obligation of either *doing* or *giving*.

We shall therefore throw out the consideration of the first altogether, as being foreign to our purpose; and adhere to the latter, which is the true object of credit. Again,

In all obligations to give any particular thing, there is constantly implied an alternative also; to wit, either the thing stipulated, or the value (*id quod interest*, according to the lawyers) this must be relative to money; which is the common price of all things in commerce among men.

Thus we have brought credit to the object under which we are to consider it, viz. the obligation to pay money, either for value received, or for some consideration relative to the parties, which may be the just ground of a contract.

Credit and debts are therefore inseparable, and very properly come to be examined together in this book.

When money is to be paid at a distant period of time, the obligation may either be, 1. for one precise sum; or 2. for that sum with interest, during the interval between contracting and fulfilling the obligation.

The lending of money without interest, was very common, before the introduction of trade and industry. Money then was considered as a barren stock, incapable of producing fruit; and whenever

the quantity of it, in any country, exceeded the uses of circulation, the remainder was locked up in treasures. In that light, the exacting of interest for it appeared unreasonable.

Things are now changed: no money is ever locked up; and the regular payment of interest for it, when borrowed, is as essential to the obtaining of credit, as the confidence of being repaid the capital. These periodical payments are a constant corroboration of this confidence; so that it may be said, with truth, that he who can give good security, to pay to perpetuity, a regular interest for money, will obtain credit for any sum, although it should appear evident, that he never can be in a capacity to refund the capital.

The reason of this may be gathered from the principles already deduced, and from the plan of our modern economy.

We have said in the second book, that the current money of a country is always in proportion to the trade, industry, consumption, and alienation, which regularly takes place in it; and when it happens that the money already in the country is not sufficient for carrying on these purposes, a part of the solid property, equal to the deficiency, may be melted down (as we have called it) and made to circulate in paper. That so soon again as this paper augments beyond that proportion, a part of what was before in circulation, must return upon the debtor in the paper, and be realized anew.

Now let us consider what is understood by *realized*. By this term is meant, that the regorging

paper, or that quantity of currency which a nation possesses over and above what is necessary for its circulation, must be turned into some shape whereby it may produce an income; for it is now a maxim, that no money is to be suffered to remain useless to the proprietor of it.

When this *regorging* paper then comes upon the debtor in it, if he should pay the value of it in hard specie, how would the condition of the creditor be improved?

We suppose the credit of the paper equal to the credit of the coin within the country. We also suppose that the paper has so stagnated in the hands of the bearer, that he can neither lend it, or purchase with it any species of solid property, within the country, capable to produce an income: for if any way of disposing it usefully can be found, this circumstance proves that circulation is not, at that time, fully stocked; consequently, the money does not regorge. But let us suppose that it does regorge; then he must either oblige the debtor in the paper to pay in coin, and lock that up in his coffers, as was the case of old; or he must send his coin to other countries, where circulation is not fully stocked, and where an income may be bought with it. This constantly happens when circulation is either overstocked, or when the quantity of it begins to diminish in a country.

Let me next suppose, that in a country reasonably stocked with money, a sudden demand for it, far beyond the ordinary rate of circulation, should occur: suppose a war to break out, which absorbs,

in a short time, more money than, perhaps, all the coin in a nation can realize. The state imposes a tax, which, let me suppose, may produce a sum equal to the interest of the money required. Is it not very certain, that such persons who found a difficulty in placing their regorging capitals, will be better pleased to purchase a part of this annual interest, than to lend it to any person who might pay it back in a short time; by which repayment the lender would again be thrown into the same inconvenience as before, of finding a proper outlet for it? This is a way of realizing superfluous money, more effectual than turning it into gold or silver.

When I speak, therefore, of realizing paper money, I understand either the converting it into gold and silver, which is the money of the world; or the placing of it in such a way as to produce a perpetual fund of annual interest.

Were public borrowing, therefore, to work the effect of bringing the money in circulation below the proportion required for carrying on alienation, then an obligation to repay the capital would be necessary, and complaints would be heard against the state for not paying of their debts; because thereby the progress of industry would be prevented. But when the operations of credit are allowed to introduce a method of creating money anew, in proportion to the demand of industry, then the state has no occasion to pay back capitals; and the public creditors enjoy far better conditions in their annual income, than if the capitals were refunded.

Let me illustrate this by an example.

We must take it for granted, that in every nation in Europe, there is a sum in circulation equal to the alienation which goes on actually at the time. We must also take it for granted, that the amount of all debts whatsoever, public and private, paying interest to the class of creditors, is a very great sum: now let us suppose, that the class of debtors should be enabled (no matter by what means) to pay off what they owe, in coin; would not, by the supposition, a sum nearly equal to that coin immediately fall into stagnation, and would it not be impossible to draw any income from it? This was exactly the case of old. The coin far exceeded the uses of circulation, and stagnated in treasures. Wars brought it out; because then circulation augmented; peace again cutting off these extraordinary demands, the coin stagnated again, and returned to the treasures.

What is the case at present?

Money and coin are never found to surpass the uses of circulation in commercial countries. When war comes, which demands an extraordinary supply, recourse is had to borrowing upon interest; not to treasures: and the desire of purchasing this interest, which we call an annuity, draws treasures even from the enemies of those nations who have the best credit. Again, at the end of a war, in place of an empty treasure, as was the case of old, we find a huge sum of public debts. As economy filled the treasury then, so economy must pay off the debts now.

From what has been said, it plainly appears,

that interest is now become so absolutely essential to credit, that it may be considered as the principal requisite, and basis on which the whole fabric stands: we shall therefore begin by examining the origin and nature of interest, and also the principles which influence the rate, and regulate the fluctuations of it.

C H A P. III.

Of the Interest of Money.

I SHALL leave it to divines and casuists to determine how far the exacting of interest for money is lawful, according to the principles of our religion.

The Jews, by the laws of Moses, were forbid to lend at interest to their brethren, but it was permitted to lend to strangers. *Deut.* chap. xxiii. ver. 19, 20. This was one of the wisest political institutions to be met with in so remote antiquity, as we shall hereafter explain.

In the primitive ages of christianity, the lending at interest was certainly reputed to be unlawful on most occasions. That spirit of charity, *to all who were in want*, was so warped in with the doctrine of our religion, that a borrower was constantly considered to be in that situation. Trade was little known; trading men were generally ill looked upon; and those who deviated so far from the spirit of the times, as to think of accumulating

wealth by the use of their money, commonly degenerated into usurers.

In the middle centuries, when a mistaken zeal animated christianity with a most ungodly thirst for the blood of infidels, the Jews were, in every nation in Europe, almost the only money lenders. This circumstance still more engaged the church to dart her thunder against this practice; and the loan upon interest never took root among christians, until a spirit of trade and industry sprung up in Italy in the time of the Lombards, and spread itself through the channel of the Hans-towns over several nations.

Then the church began to open her eyes, and saw the expediency of introducing many modifications, to limit the general anathema against the whole class of money lenders. At one time it was declared lawful to lend at interest, when the capital shared any risque in the hands of the borrower; at another, it was found allowable; when the capital was not demandable from the debtor, while he paid the interest: again, it was permitted, when the debtor was declared by sentence of a judge, to be *in mora* in acquitting his obligation: at last, it was permitted on bills of exchange. In short, in most Roman catholic countries, interest is now permitted in every case almost, except in obligations bearing a stipulation of interest for sums demandable at any time after the term of payment; and it is as yet no where considered as essential to loan, or demandable upon obligations payable on demand.

Expediency

Expediency and the good of society (politically speaking) are the only rule for judging, when the loan upon interest should be permitted, when forbid. While people borrowed only in order to procure a circulating equivalent for providing their necessities, until they could have time to dispose of their effects; and while there was seldom any certain profit to be made by the use of the money borrowed, by turning it into trade, it was very natural to consider the lender in an unfavorable light; because it was supposed that the money, if not lent, must have remained locked up in his coffers. But at present, when we see so many people employed in providing stores of necessities for others, which, without money, could not be done; forbidding the loan upon interest, has the effect of locking up the very instrument (money) which is necessary for supplying the wants of the society. The loan, therefore, upon interest, *as society now stands composed*, is established, not in favor of the lenders, but of the whole community; and taking the matter in this light, no one, I suppose, will pretend that what is beneficial to a whole society should be forbid, because of its being proportionably advantageous to some particular members of it.

If it be then allowed, that the loan upon interest is a good political institution, relative to the present situation of European societies, the next question is, to determine a proper standard for it, so as to avoid the oppression of usurers, on one hand, and on the other, to allow such a reasonable profit to the lender,

as may engage him to throw his money into circulation for the common advantage.

This question leads us directly to the examination of the principles which regulate the rate of interest; and if we can discover a certain rule, arising from the nature of things, and from the principles of commerce, which may direct a statesman how to establish a proper regulation in that matter, we may decide with certainty concerning the exact limits, between unlawful and pinching usury, exacted by a vicious set of men, who profit of the distresses of individuals; and that reasonable equivalent which men have a right to expect for the use of their money, lent for carrying on the circulation of trade, and the employment of the lower classes of a people, who must subsist by their industry or labor.

C H A P. IV.

Of the Principles which regulate the Rate of Interest.

WE must now recal to mind the principles of demand and competition, so fully deduced in the second book, in order to answer the following question, viz.

What is the principle which regulates, at all times, the just and adequate rate of interest for money, in any particular state?

I answer, That at all times, there is in every state a certain number of persons who have occasion to borrow money, and a certain number of persons

who desire to lend : there is also a certain sum of money demanded by the borrowers, and a certain sum offered to be lent. The borrowers desire to fix the interest as *low* as they can; the lenders seek, from a like principle of self-interest, to carry the rate of it as high as *they* can.

From this combination of interests arises a double competition, which fluctuates between the two parties. If more is demanded to be borrowed, than there is found to be lent, the competition will take place among the borrowers. Such among them who have the most pressing occasion for money, will offer the highest interest, and will be preferred. If, on the contrary, the money to be lent exceeds the demand of the borrowers, the competition will be upon the other side. Such of the lenders, who have the most pressing occasion to draw an interest for their money, will offer it at the lowest interest, and this offer will be accepted of.

I need not launch out into a repetition of what has been said concerning the influence of double competition, in fixing the price of commodities : I suppose those principles understood, and well retained, by those who read this chapter; and confine myself here to what is peculiar to the demand for money.

The price of commodities is extremely fluctuating: they are all calculated for particular uses; money serves every purpose. Commodities, though of the same kind, differ in goodness: money is all, or *ought to be* all of the same value, relative to its denominations. Hence the *price of money* (which is

what we express by the term *interest*) is susceptible of a far greater stability and uniformity, than the price of any other thing.

We have shown in the 28th chapter of the second book, in examining the principles which regulate the prices of subsistence, that the only thing which can fix a standard there, is frequent and familiar alienation. The same holds true of money. Were we to suppose a state, where borrowing and lending are not common, and where the laws fix no determinate interest for money, it would hardly be possible to ascertain the rate of it at any time. This was the case of old.

Before the reign of Henry VIII. of England, *anno* 1545, there was no statute regulating the rate of interest in that kingdom. The reason is very plain. In those days there was little circulation, and the borrowing upon interest was considered as a mortal sin. The consequence of this was, that usurers, having nothing but conscience to restrain them, carried the price of their money to a level with the pressing occasion of spendthrifts, while others, from friendship, lent for no interest at all. Henry fixed the rate of interest at 10 *per cent.* and his cotemporary, Francis I. of France, *anno* 1522, (who was the first who borrowed money in a regular manner upon the town-house of Paris) fixed the interest at the 12th penny, that is, at $8\frac{1}{3}$ *per cent.*

In those days, it was impossible for a statesman to determine any just rate for interest; and accordingly we find history filled with the extortion of usurers, on one hand, and the violence and injustice

of Princes and ministers towards those who had lent them money, on the other: was it then any wonder, that lending at interest was universally cried out against? It really produced very little good, and was the cause of manifold calamities to a state. When the Prince borrowed, it was when in the most urgent distress: those who lent to him, foresaw the danger of being plundered if they refused, and of being defrauded as soon as the public distress was over: for this reason they exacted the most exorbitant interest: the consequence was, that the people were loaded with the most grievous taxes, and the tax-gatherers were the Prince's creditors, to whom such taxes were assigned.

In our days, trade, industry, and a call for money for such purposes, enable the borrower to enrich himself, to supply the wants of the state, and to pay his interest regularly.

If we compare the two situations, we shall find every disadvantage attending the former, and every advantage connected with the latter.

Without good faith there is no credit; without credit there is no borrowing of money, no industry, no circulation, no bread for the lower classes, no luxury, not even the conveniencies of life, for the rich. Under these circumstances, there can be no rule for the rate of interest; because borrowing cannot be frequent and familiar.

In proportion, therefore, as borrowing becomes frequent and familiar, the rule for fixing the rate of a legal interest becomes more practicable to a statesman. Let me take a step farther.

We have said, that it is the fluctuation of the double competition between borrowers and lenders, which occasions the rise and fall of the rate of interest; I must now point out the principles which occasion this fluctuation.

Were the interests of trade and industry so exactly established, as to produce the same profit on every branch, the money borrowed for carrying them on, would naturally be taken at the same rate; but this is not the case: some branches afford more, some less profit. In proportion, therefore, to the advantages to be reaped from borrowed money, the borrowers offer more or less for the use of it.

Besides the class of men who borrow *in order to profit* by the loan, there is another class, who borrow *in order to dissipate*. The first class never can offer an interest which exceeds the proportion of their gains: the second class, finding nothing but want of credit to limit their expense, become a prey to usurers. Were it not then upon account of these last, there would be no occasion for a statute to regulate the rate of interest. The profits on trade would strike an average among the industrious classes; and that average would fall and rise, in proportion to the flourishing or decay of commerce.

Let us next examine the principles which prevent the monied men from committing extortions, and which oblige them to lend their money for that rate of interest which is in proportion to the profits upon trade and industry.

In every country there is found a sum of money (that is, of circulating value, no matter whether coin

or paper) proportioned to the trade and industry of it. How this sum is determined, and how it is made to augment and diminish in proportion to industry, we have already explained in the 26th chapter of the second book: we are now to examine some of the consequences which result from the accidental stagnation of any part of it to the prejudice of alienation; and we must show how the loan upon interest is the means of throwing it again into circulation.

There are in every state some who spend more, and some who spend less than their income. What is not spent must stagnate; or be lent to those who spend more than the produce of their own funds. Were the first class found so to preponderate, as to require more money to borrow than all that is to be lent, the consequence would be, to prevent the borrowing of merchants; to raise interest so high as to extinguish trade; and to destroy industry; and these resources coming to fail, foreign commodities would be brought in, while exportation would be stopt, money would disappear, and all would fall into decay.

This, I believe, is a case which seldom happens; because the rise of interest (as states are now formed) has so much the effect of depreciating the value of every species of solid property, that spendthrifts are quickly stripped of them, by the growing accumulation of that canker worm, interest; their ruin terrifies many from following so hurtful an example, and their property falling into the hands of the other class, who spend less than their income; these

new possessors introduce, by their example, a more frugal set of manners. This may be the case in countries where trade and industry have been introduced; and where the operations of credit have been able to draw a large quantity of solid property into circulation, according to the principles deduced in the chapter above referred to. But in nations of idleness, who circulate their coin only, and who are deprived of the resource of credit, high interest prevents them from emerging out of their sloth; the little trade they have, continues to produce great profits, which are incompatible with foreign commerce: this may, indeed, make the coin they have circulate for home consumption; but can bring nothing from abroad.

On the other hand, when trade and industry flourish, and a monied interest is formed, in consequence of melting down of solid property, and still more when a state comes to contract great debts, were the money lenders to attempt to raise the rate of interest to the standard of the spendthrift, the demands of trade, &c. would soon be cut off: the stagnation would then swell so fast in their hands, that it would in a manner choke them, and in a little time interest would fall to nothing. Whereas by contenting themselves with the standard of trade, the largest supplies (provided for the borrowers) easily find a vent, without raising the rate of interest so high as to be hurtful to any interest within the state.

Add to this, that the advantage of realizing, into lands, so unstable a property as money, must naturally throw the proprietors of it into a competition

for the lands which dissipation brings to market; and so by raising the value of these, they, with their own hands, defeat the consequences of the dissipation of spendthrifts, and hurt their own interest, to wit, the rise of the price of money. From a combination of these circumstances, lenders become obliged to part with their money at that rate of interest which is the most consistent with the good of commerce.

We have hitherto preserved our combinations as simple as possible. We have suggested no extrinsic obstacle to borrowing and lending. If money is to be lent, and if people are found who incline to borrow, we have taken it for granted, that circulation will go on; and that the stagnations in the hands of the lenders, will find a ready vent by the dissipation of the other class: we must now take a step farther.

The spendthrifts must have credit; that is, they must have it in their power to repay with interest what they have borrowed: any impediment to credit, has the effect either of diminishing the demand for money, and consequently of lowering the rate of interest, or of introducing unlawful usury. If we suppose the rate of interest well determined, and usury prevented by a regular execution of good laws, it is very certain, that a statesman by hurting the credit of extravagant people, will keep the rate of interest within due bounds.

If, therefore, we find the laws of any country, in our days, defective in establishing a facility in securing money on solid property, while the rate of interest stands higher than is consistent with the

good of trade, and with public credit; we should be slow in finding fault with such a defect. The motives of statesmen lie very deep; and they are not always at liberty to explain them. An example of such clogs upon credit are entails upon lands, and the want of proper registers for mortgages.

Did the dissipation of landed men tend to promote foreign trade, such clogs would be pernicious: but if the tendency be to promote domestic luxury only, and thereby raise the price of labor and industry, the case is widely different. This observation is only by the bye. Our object at present extends no farther, than to point out, that the dissipation of landed men, and the credit they have to borrow money, influences, not a little, the rate of interest in every modern state.

These are the general principles which, arising from things themselves, without the interposition of a statesman, tend to regulate the rate of interest in commercial nations.

CHAP. V.

Of the Regulation of Interest by Statute.

FROM the principles deduced in the preceding chapter, we have seen how, without the aid of any law, the interest of money, in a trading nation, becomes determined, from natural causes, and from the irresistible effects of competition.

But as there is no country in the world so entirely given to commerce, as not to contain great numbers of people, who are totally unacquainted with it, a regulation becomes necessary to restrain, on one hand, the frenzy of those, who, listening to nothing but the violence of their passions, are willing to procure money at any rate for the gratification of them, let the political consequences of their dissipation prove ever so hurtful; and on the other, to protect those who, from necessity, may be obliged to submit to the heavy oppression of their usurious creditors.

Laws restraining usury, are directly calculated for the sake of those two classes, not engaged in commerce, and indirectly calculated for commerce itself; which otherwise might receive a wound through their sides.

In entering upon the subject mentioned in the title of this chapter, I think we may agree in this, that hitherto all regulations made concerning interest, have been calculated either for bringing it down, or for preventing its rise. The distress which may come upon a state, by its falling too low, is a phenomenon which has not yet manifested itself in any modern state, by any symptom I can at present recollect.

Now if it be true, as I think it has been proved, that the operations of demand and competition work irresistible effects in determining the rate of interest in commercial states; the statesman who is about to make a regulation, must keep these principles constantly in his eye.

If we examine the writings of those who have treated of this subject with intelligence (among whom, I think, Child has a right to stand in the foremost rank) we shall find very little attention bestowed upon that most necessary and ruling principle.

He lays it down as an axiom, that low interest is the soul of trade, in which he is certainly right; but he seems to think, *that it is in the power of a legislature, by statute, to bring interest down to that level which is most advantageous to trade*; and in this I differ from him. I must do him the justice to say, that he no where directly affirms that proposition; but by suggesting none of the inconveniences which may follow upon an arbitrary reduction of interest by statute, he leaves his reader at liberty to suppose, that the lowering of it is solely in the hands of a statesman.

It is very plain, from the history he has given us of the successive rates of interest in England from 10 to 6 *per cent.* that without the interposition of statutes, such diminutions would not, *in that period*, have taken place, from the principle of competition: but I am not so clear that, *at this time*, when trade is so well understood, and credit so generally established in many nations of Europe, that a like administration would work effects equally advantageous.

It is with great diffidence I presume to differ from Child upon this subject; and I find a sensible satisfaction in perceiving that my principles bring me so very near to his sentiments on this matter.

The strong arguments in favor of Child's opinion, are grounded upon facts. He says, that when interest was brought down by statute, *anno* 1625, from 10 to 8 *per cent.* that in place of producing any bad effect, it had that of bringing it still lower immediately afterwards; and the same thing happened, *anno* 1650, when it was reduced a second time by statute, from 8 to 6 *per cent.* at which rate it stood at the time he wrote. These facts I give credit to, and shall now account for them, from the consequences of sudden revolutions.

When a law is made for the reduction of interest, all debtors immediately profit by it. Upon this, the creditors must either submit, or call in their capitals. If they submit, land immediately rises in its value. If they call in their capitals, they must have an outlet for lending them out again, beyond the limits of the jurisdiction of the legislature. Now this outlet was not then to be found; because credit was no where well established, except in Holland, where interest was still lower.

They were, therefore, obliged to submit, and thus interest was violently brought down by statute; and a great advantage resulted from it to the commercial interests of England.

The subsequent fall of interest, in the natural way, is thus easily accounted for.

The consequence of lowering the interest, was, that the price of land rose several years in purchase: the landed men, who had long groaned under the heavy interest of 10 *per cent.* finding their lands rise from 12 years purchase to 15, upon reducing the

interest to 8 *per cent.* sold off part of their lands, and cleared themselves. The natural consequence of this was, to make money regorge in the hands of the monied men; to diminish the number of borrowers; and consequently, to bring the rate of interest still lower.

One sudden revolution produces another. When interest is brought down by statute, the price of land must rise by a jerk; and landed men will suddenly profit of the change in their favor. When it falls gently, by natural revolutions in the state of demand, the effects are more insensible; the sharper sighted only profit of it; others, from expectation of a still greater rise in the price of their lands, neglect to sell in the proper point of time; and may perhaps be disappointed from a new fluctuation in favor of money. This is at present actually the case in Great Britain, since the peace of 1762. I write in 1764.

These facts speak strongly in favor of Child's opinion, that it is expedient to have recourse directly to the statute, whenever there is a prospect of advancing the interests of trade by a reduction of interest.

It is impossible to reply to matters of fact: all, therefore, I have to alledge in favor of my own opinion, is, that it is more consistent with the very principles in which both Child and I agree; it implies no sudden revolution, and will, in a short time, operate the same effect.

The method of proceeding, according to my principles, is shortly this.

Since it is agreed on all hands, that low interest is the soul of trade, and the firmest basis of public credit; that it rises in proportion to the demand of borrowers, and sinks in proportion as money is made to regorge in the hands of the monied interest;

The statesman should set out by such steps of administration as will discourage borrowing, in those who employ their money in prodigality and dissipation, as far as may be consistent with the interest of the lower classes employed in supplying home consumption, according to the principles laid down in the second book. He should abstain from borrowing himself, and even from creating new outlets for money, except from the most cogent motives. By this he will, in a short time, gently reduce the rate of interest. Then by statute he may bring it down a little, but not so very low as the foregoing operations may have reduced it; contenting himself with having farther restricted the extent of the ordinary fluctuations.

As for example: let us suppose interest limited by law to 5 *per cent.* and that by good management the state may be enabled to borrow easily at 3 *per cent.* I believe there would result a notable advantage, in reducing the legal rate to 4 *per cent.* and were it brought down to 3 *per cent.* there might follow a very great inconvenience to landed men, in case a war should suddenly occasion a revolution in favor of money.

The difference then between Child and me, is, that I am more scrupulous than he, in introducing restraint into political economy; and my only reason

against applying the statute, as he proposes, is for fear of the immediate bad effects which might follow (in many ways impossible to be foreseen) upon a sudden and violent revolution, in a point so excessively delicate as public credit.

In his days, credit was not so well established, nor was it stretched as at present: it was more accustomed to violent shocks, and could bear a rougher treatment. But in order to come the better to a thorough knowledge of this matter, let us examine into what might be the consequence, if Great Britain should, at this time, bring down, by statute, the rate of interest *below the level of the stocks*, which I take to be the best rule of determining the present value of money; and this is also the best method of examining the expediency of Child's method of reducing interest, under the present combination of all our political circumstances.

C H A P. VI.

What would be the Consequence of reducing, by a British Statute, the legal Interest of Money below the present level of the Stocks.

WHEN Great Britain borrows money upon the public faith, the rate of interest is always stipulated, and these stipulations must be religiously fulfilled, or credit will be at an end.

The regulations then proposed to be made, must only refer to contracts of loan entered into by private parties.

The

The current value of money, I think, is best to be determined by the price of stocks. If a 4 *per cent.* sells at par, money may be said to be then at 4 *per cent.* If the same stock falls to 89, then the value of money rises to near 4 $\frac{1}{2}$: if the same stock rises to 114, then the value of money falls to about 3 $\frac{1}{2}$; and so in proportion.

According, therefore, as stock is found to rise, the price of money falls, and *vice versa*.

Suppose, then, the price of money to be at 4 *per cent.* and that government should pass a law, forbidding any man to lend at above 3 *per cent.* what would be the consequence? This is exactly the expedient proposed by Child: money then was at 6 *per cent.* and he proposes, by a law, to bring it, all at once, to 4, without alledging that money was then commonly got by private convention at so low a rate.

Would not the consequence be, that the creditors of private people would demand their money, in order to get 4 *per cent.* in buying stock, and would not this additional demand for stocks make them rise? I answer in the affirmative, unless money could be employed abroad, so as to produce at least 4 *per cent.* to the lenders, free of all charge of commission, &c. If it could not, I have little doubt, but that money would soon fall to the legal interest of 3 *per cent.* land would rise to 40 years purchase; and landed men would profit of the rise, as Child says was the case in his time. The whole inconvenience would be limited to the immediate effects of the sudden revolution; which would occasion

so great a run upon the landed interest, as to reduce them to an utter incapacity of answering it. This might be, in some measure, prevented, by a clause in the act, allowing a certain time for the liquidation of their debts. But who will pretend to foretel the immediate consequences of so great a stagnation of credit, and borrowing on land security? The purses of all monied people, would, for some time at least, be fast shut against their demand. What a shock again, would this be to all inland trade, what a discouragement to all the manufacturing interest, what distress upon all creditors for accounts furnished, and upon those who supply daily wants! I think, even supposing that in a year or two, the first effects might come to disappear, and a notable advantage result, in the main, to the commercial interest of Great Britain, yet the distress in the interval might prove so hurtful, as to render it quite intolerable. The common people who live by the luxury of the rich, in the city of London, and who are constantly acted upon by the immediate feelings of present inconveniences, might lose all patience; and being blown into a ferment, by the address of the monied interest (whose condition would be made to suffer by the scheme) might throw the state into confusion, and impress the nation with a belief, that high interest for money, in place of being hurtful, was essential to their prosperity.

I have said above, that supposing the money drawn from debtors, could not be placed abroad, free of all deductions, at a rate equal to the then value of money (supposed, for the sake of an example to be

at 4 *per cent.*) that then money would fall to 3 *per cent.* and the stocks would rise in proportion.

But let us suppose (what perhaps is the matter of fact) that the extensive operations of trade and credit, do actually fix an average for the price of stocks, from the value of money in other nations in Europe. Would not then the consequence of bringing down the rate of legal interest, below that level, be, to send out of the kingdom all the money now circulating on private security, real and personal? Would not this destroy all private credit at one blow? Would it not have the effect of preventing, among individuals, the loan upon interest altogether? What would become of the bank of England, and all other banks, whose paper in circulation is all in the hands of private people? Is not every man who has a bank note, a creditor on the bank, and would not the same interest which moves other creditors to exact their debts, under such circumstances, also move many holders of bank notes, to demand payment of them? Would not a run of that nature, only for a few weeks, throw the whole nation into the most dreadful distress? May we not even suppose, that upon such an occasion, the monied interest (*from a certainty of disappointing the intention of government in making the law*) might form a combination among themselves to lock up their money, even although it should remain dead in their hands for a few months? What would become of the improvement of land? Is there an industrious farmer any where to be met with, who does not borrow money, which he can so profitably turn to account upon

his farm, even though he receives it at the highest legal interest? These and many more inconveniences *might* manifest themselves, were government to force down the value of money, contrary to the ordinary operations of demand and competition: and to what purpose have recourse to authority, when it is most certain, that without any such expedient the same end may be compassed?

If it be true, as I believe it is, that in states where credit is so well established, that their funds or public debts are commonly negociated abroad, there is an average fixed for the value of money, by the operations of credit over the commercial world: and if it be true, that no law can be framed so as to restrain mercantile people, and those who make a trade of money, from turning it to the best account; then all that should be proposed by government, is, to preserve the value of it at home, within that standard. For which purpose, nothing more is necessary than to prevent the competition of the dissipating class of inhabitants, from disturbing the rate which commerce may establish from time to time. This is accomplished by the methods above hinted at, and which in the next chapter shall be more largely insisted on. If, by prudent management, the *conventional* rate of interest, can thus be brought below the *legal*, then there will be no harm in diminishing the latter by statute, not however *quite* so low as the conventional standard; but to leave a reasonable latitude for gentle fluctuations above it. From what I have said, I still think I had reason to object

to Child's plan for forcing down the interest by statute: and had he lived at this time, I am persuaded he would have come into that opinion.

C H A P. VII.

Methods of bringing down the Rate of Interest, in Consequence of the Principles of Demand and Competition.

I HOPE the arguments used in the foregoing chapter will not be construed as an apology for the high interest of money.

I entirely agree with Sir Josiah Child, that low interest is the soul of trade; the most active principle for promoting industry, and the improvement of land; and a requisite, without which it is hardly possible that foreign commerce can long be supported.

This proposition I take to be at this time universally admitted to be true; and did there remain, concerning it, the vestige of a doubt in the mind of any one, the writings of many, much more capable than I can pretend to be, and among the rest, the author just now cited, are sufficiently capable to remove it. I shall not therefore trouble my reader with a chapter upon that head, but only observe, that the terms *high* and *low* are constantly relative. Here the relation must be understood to regard other states, because when we speak of a *rate* of interest, we are supposed to mean something general in the country we are speaking of: accordingly, if we could suppose

that, within the same state, the rate of interest should be lower in one city than any where else, that circumstance would give an advantage to that city in all its mercantile operations.

I must farther observe, for the sake of connecting this part of our subject with our general plan, that the low interest for money is most essential to such states as carry on the most extensive foreign commerce.

In the infancy of industry, and before trade comes to be established, it is very natural that the coin of the country should be found in a great measure locked up in treasures: high interest tends to bring it forth, and in that respect works a good effect.

In proportion as alienation augments, money comes to be multiplied, by the melting down of solid property, as has been explained; and then the business of a statesman is to contrive expedients for bringing the rate of it as low as possible, in order to support foreign trade, and to rival all neighbouring nations, where interest is higher. When foreign trade again comes to decline, from the multiplication of abuses introduced by luxury, low interest still continues useful, for supporting public credit, so necessary for defending a nation against her enemies.

If money consisted only in the precious metals, which are not to be found in every country, but must be purchased with the produce of industry, and brought from far; and if no other expedient could be fallen upon to supply their place for the uses of circulation; then the possessors of these

metals would in a manner be masters to establish what rate of interest they thought fit for the use of them.

But if that be not the case, and if money can be made of paper, to the value of all the solid property of a nation, (so far as occasion is found for it, by the owners of that property) the use of the metals comes to be in a manner reduced to that of serving as a standard, for ascertaining the value of the denominations of money of account; perhaps for facilitating the circulation of small sums, and for paying a balance of trade to other nations.

When this is the case, a statesman has it in his power to increase or diminish the extent of credit and paper money in circulation, by various expedients, which greatly influence the rate of interest.

The progress of credit has been very rapid since the beginning of this century. This has been almost entirely owing to the mechanical combinations of trading men. Lawgivers have hitherto had but imperfect notions concerning the nature of it; and there still remains, in the womb of nature, some mighty genius, born to govern a commercial nation, who alone will be able to set it on its true principles. Let us in the mean time speculate concerning them.

We have said, and every body feels, that interest falls in proportion to the redundancy of money to be lent.

Now what is this money but property, of one kind or other, thrown into circulation? I speak of trading nations, who are not confined to the quantity of their specie alone.

When a man of property wants money, does he not go to a bank, which lends upon mortgage, and by pledging his security, does he not receive money, which is in the same instant created for his use? Do not those notes circulate as long as they are found necessary for carrying on the affairs of the nation? that is to say, the accompts of debtors and creditors of all denominations; and as soon as the quantity of them exceeds that proportion, they stagnate, and return on the debtors in them, (the bank) who is enabled to realize them, because the original security is still in their hands, which was at first pledged when the notes were issued. This realization is commonly made in the metals; because they are the money of the world: they are real and true riches, as much as land; and they have this advantage over land, that they are transportable every where.

Now, does it not appear evident, that what we have been describing is a round-about operation, which it is possible to shorten?

I beg of my reader, that he may attend to one thing; which is, that I am not here treating of, or proposing a plan, but laboring in the deduction of principles in an intricate subject.

I say, when landed men go to such a bank, and receive paper for a land security, that this operation may be shortened.

Do not the notes he gets stand (though that is not expressed) upon the security of his land? Now, can any man assign any other reason but custom, why his own notes, carrying expressly in their bosom

the same security, might not be issued, without his being obliged to interpose the bank between the public and himself: And for what does he pay that interest? Not that he has gratuitously received any value from the bank; because in his obligation he has given a full equivalent for the notes; but the obligation carries interest, and the notes carry none. Why? Because the one circulates like money, the other does not. For this advantage, therefore, of circulation, not for any additional value, does the landed man pay interest to the bank.

Had landed men, and not merchants, invented this method of turning their property into circulation, and had they been all assembled in one body, with a legislative authority, I imagine they would have had wit enough to find out that a land bank was a thing practicable in its nature.

Suppose they had agreed that all their lands should be let by the acre, and that land property should be esteemed at a certain number of years purchase, in proportion to the rate of interest at the time, where would be the great difficulty in paying in lands?

This is only a hint, to which a thousand objections may be made, as matters stand: all I say, is, that there is nothing here against principles; and though there might, in every way such a plan could be laid down, result inconveniencies to the landed interest, yet still these inconveniencies would hardly counterbalance that of their being obliged to pay interest for every penny they borrow.

It is demanded, what advantage would result to the nation from such a regulation?

I answer, that by it all the borrowings of landed men would be struck out of the competition at the money-market. The money'd interest alone would borrow among themselves for the purposes of trade, (for money'd men do not borrow to squander) and landed men would consequently pay with their own paper, in every case, where now they borrow in order to pay. Thus interest would be regulated by the demands of trade; and the rate of it would not be disturbed by the competition of spendthrifts.

Who can say how far the consequences of such a scheme might reach? Might not landed men begin in time to issue notes by way of loan, at a very inconsiderable interest? But I do not incline to carry my speculations farther: perhaps what has been said may appear sufficiently aerial.

If a statesmann shall find every modification of this idea impracticable; either from his own want of power, or of combination, or, which is more probable, from the opposition of the money'd interest, he must take other measures for striking out, as much as possible, the competition of spendthrifts at the money-market. Entails, and lame securities, are good expedients; though they are productive of many inconveniencies. His own frugal economy in state affairs will go much farther than any such trifling expedients.

Did a nation enjoying peace, although indebted perhaps 140 millions sterling, begin by paying off but 2 *per cent.* of their capital yearly, besides the current interest; while no neighbouring state was borrowing any; what would interest fall to in a short

time! It may be answered, that the consequence would be, to enrich other nations; because the regorging money would be sent abroad. Is any state ever enriched by their borrowing? And in what does such lending to foreigners differ from the nation's paying off their foreign creditors? Will not the return of interest from abroad compensate, *pro tanto*, the sums sent out for the like purpose?

But if it be said, that the consequence will be to enable other nations to bring down their own rate of interest; I allow it to be so; and so much the better, as long as it remains proportionally lower with us; which it must do, as long as we can lend abroad. We have said, and I believe with truth, that as credit is now extended, a general average is struck every where upon the value of money: consequently, the lower interest is found abroad, the lower still it will remain at home, as long as merchants and exchangers subsist.

From this circumstance of the average on the rate of interest, the Dutch must, I think, have lost the great advantage they formerly enjoyed, from the low rate of it in Holland, in proportion to their neighbours.

In Child's time, they were familiarly buying up sugars in London, above the price paid by English sugar-bakers; and, notwithstanding the additional freight and charges, they grew rich by their trade, while the others were hardly making any profit. This he accounts for, from the low rate of their interest. He supposes both Dutch and English to have carried on this trade with borrowed money;

for which the first paid 3 *per cent.* and the other 6 *per cent.*

But at present, were it possible to get 6 *per cent.* for money in London, what Dutchman would lend his father a shilling at 3 *per cent.*? The English stocks are as currently bought and sold, nay, all the stockjobbing tricks are practised with the same subtlety at Amsterdam as in Change-Alley: from which I conclude, that a great part of the advantage of low interest is now lost to that nation; and I conclude farther, that it is the common interest of all trading nations to bring it as low as possible every where.

Another cause of high interest proceeds from certain clogs laid upon circulation, which proceed merely from custom and prejudice. Of this nature is the obligation of debtors to pay in the metals, nothing but coin being a legal tender.

The only foundation for such a regulation was the precariousness of credit in former times. Were all the circulating paper in a nation secured by law, either upon the lands or revenue of the country appropriated for that purpose, there could be no injustice or inconvenience in making paper (so secured) a legal tender in all payments. Again, how extraordinary must it appear to any reasonable man, that the same paper which passes on one side of a river, should not pass on its opposite bank, though running through the same country?

The reason indeed is very plain: the subaltern jurisdictions are different; and the debtors in the paper are different: but if the paper of both stood

upon a security equally good, what is to hinder both to be received as a legal tender in all payments over the kingdom? Should not little private objects of profit among bankers (who are the servants of the state, and who are so well paid for their service) be over-ruled, when the consequences of their disputes are found to be so hurtful? But of this more, when we come to speak of banks.

The only occasion where coin is necessary in the liquidation of paper, is for payment of the balance of trade with foreign nations. Of this also we shall treat more at large, when we come to the doctrine of exchange. But surely nothing is so ill judged, as to create an imaginary balance within the same state; or rather, to permit money-jobbers to create it; at the expense of raising interest, and hurting trade, in the very places where it stands in the greatest need of encouragement.

From these principles, and others which naturally flow from them, may a statesman steer a very certain course, towards bringing the rate of interest as low as the prosperity of trade requires, or the principles of double competition between borrowers and lenders will permit.

C H A P. VIII.

Is the Rate of Interest the sure Barometer of the State of Commerce?

SOME political writers are fond of every expedient to reduce within a narrow compass many

questions, which being involved in intricate combinations, cannot be reduced to one principle. This throws them into what I call systems; of which we have an example in the question now before us.

There is nothing more difficult than to determine when commerce runs favorably, and when unfavorably for a nation. This would not be the case, were the rate of interest the just barometer of it. I have found it however advanced, that nothing more is necessary to be known, in order to estimate the relative profits upon the foreign trade of two nations, than to compare the common rate of interest in both, and to decide the preference in favor of that nation where it is found to be lowest.

We may say of this proposition, as of the course of exchange; the lowness of interest and exchange are both exceedingly favorable to trade; but they are no adequate measure of the profits arising from it.

The best argument in favor of this opinion with regard to interest is, that the nation which sells the cheapest at foreign markets is constantly preferred; and, consequently, where the use of money is the lowest, the merchant can sell the cheapest.

I answer, that this consequence *would* be just, were all trade carried on with borrowed money, and were the difference of the price of the materials or first matter, the ease in procuring them, the promptitude of payments, the industry of the manufacturer, and his dexterity, reckoned for nothing. But such advantages are frequently found in these articles, as to be more than sufficient to counterbalance the additional interest which is paid for the

money employed in trade. This is so true, that we see the dexterity alone of the workman (living in an expensive capital, where the charge of living may be double of what it is in the country) enabling him to undersell his competitors every where: the same may be true with regard to the other articles. Farther, how far is it not from truth to say, that all *trade* is carried on with borrowed money? When the term *trade* here made use of, is properly understood, we shall see, that a very inconsiderable part of its object is carried on with borrowed money, in any country in Europe; and that part which is carried on with borrowed money is not so much clogged by the high rate of interest, as by want of punctuality in payments. A merchant who can turn his money in three months, borrows as cheaply at 6 *per cent.* as another who turns his in six months, when he borrows at 3 *per cent.*

The object of trade is produce and manufacture. If any one will consider the value of these two articles, before they come into the hands of merchants, and compare this with the money borrowed by farmers and manufacturers, in order to bring them to market, the proportion will be very small.

Do we not see every day, that ingenious workmen, who obtain credit for very small sums, are soon enabled, by the means of their own industry, to produce a surprising value in manufactures, and not only to subsist, but to increase in riches? The interest they pay for the money borrowed is inconsiderable, when compared with the value, created (as it were) by the proper employment of their time and talents.

If it be said, that this is a vague assertion, supported by no proof; I answer, that the value of a man's work may be estimated by the proportion between the manufacture when brought to market, and the first matter. Nothing but the first matter, and the instruments of manufacture, can be considered as the objects of borrowed money; unless we go so far as to estimate the nourishment, and every expense of the manufacturer, and suppose that these are also supplied from borrowed money. To affirm that, would be turning arguments into cavil.

The object, therefore, of borrowed money for carrying on trade, is more relative to the merchant than to the manufacturer. Borrowing is necessary for collecting all this product and manufacture into the hands of merchants. This, no doubt, is very commonly the operation of credit: interest of money, here, comes in, to indemnify the giver of credit, for the use of money: but this interest is only due from the time the borrower pays those from whom he collects, to the time he receives payment from those to whom he sells. This interval it is of the highest importance to the merchant to shorten. In proportion as it is long, and in proportion to the rate of interest, he must raise his profits; and in proportion as payments are quick and regular, and interest low, he may diminish them. Whether merchants do regulate their profits, in all commercial nations, according to the exact proportion of the respective rates of interest, and promptitude of payments among them; or whether these are determined by the circumstances
of

of demand and competition in the several foreign markets where the trade is carried on, I leave to merchants to determine. All I shall remark is, that a well founded credit, and prompt payments, will do more service to trade, than any advantage trading men can reap from the different rate of interest in different countries.

It must not be concluded from this, that low interest is not a very great advantage to trade; all I contend for, is, that it is not the barometer of it.

Another circumstance which puts nations, in our days, much more on a level than they were in former times, I have already hinted at. It is *that general average* which the great loads of national debts, and the extension of credit, through the several nations of Europe, who pay annually large sums of interest to their creditors, has established. Let me suppose the Dutch, for example, to have fixed, by placard, the rate of their interest, at *3 per cent.* I say, that so soon as the *general average* of interest comes to stand above that rate, from the price of public funds in England and France, we may safely conclude, that their trade cannot be carried on with any very considerable sum of money borrowed at *3 per cent.* The consequence then must be, to send the money which regorges in the hands of the frugal Dutch, into other countries, where it can produce a better return, exclusive of all expenses of remitting and drawing. What the consequences of this lending to foreigners may be to Holland, shall be afterwards examined.

To conclude; I believe it will be found, that

what has led some to believe that low interest is the barometer of commerce, has been owing to this; that in some of the most commercial countries and cities interest has been found to be lower than in great kingdoms: but *that*, I imagine, is entirely owing to the frugality of their manners, which cuts off the borrowing of the rich for the sake of dissipation. When this is accomplished, trade alone being what absorbs the stagnations of the frugal, the price of interest will fall to that rate which is the best proportioned to the profits upon it: but this also will be less and less the case every day, in proportion to the credit and circulation of public funds in different nations.

C H A P. IX.

Does not Interest fall in Proportion as Wealth increases?

AN S W E R in the affirmative: providing it be supposed that dissipation does not increase in proportion to the wealth. Now in a general proposition, such as this which stands at the head of our chapter, that very necessary proviso is not attended to, and thus people are led to error. It is the manners of a people, not their external circumstances as to riches, which render them frugal or extravagant. What, therefore, depends upon the spirit of a people, cannot be changed, but in consequence of a change of that spirit.

If the rate of interest be high, from a taste of dis-

sipation, let foreign trade throw in what loads of money it may, interest will still stand high, until manners change. Every class of a people has their peculiar spirit. The frugal merchant will accumulate wealth, and the prodigal lord will borrow it. In this situation, internal circulation will be rapid, and lands will shift hands. If this revolution should prove a corrective to dissipation, by vesting property in those who have contracted a firm habit of frugality, then an augmentation of wealth may sink the rate of interest. But if, on the contrary, the laws and manners of the country do distinguish classes by their manner of living, and mode of expense, it is ten to one that the industrious and frugal merchant will put on the prodigal gentleman, the moment he gets into a fine country seat, and hears himself called Your honor. In certain countries, the memory of past industry carries a dreg along with it, which nothing but expensive living has power to purge away.

Let this suffice at present upon the subject of interest: it is so connected with the doctrine of credit, that it will recur again at almost every step as we go along.

AN INQUIRY
INTO THE
PRINCIPLES
OF
POLITICAL ECONOMY.

BOOK IV.
OF CREDIT AND DEBTS.
PART II.
OF BANKS.

CHAP. I.

Of the various Kinds of Credit.

WE have already pointed out the nature of credit, which is confidence; and we have deduced the principles which influence the rate of interest, the essential requisite for its support.

We come now to treat of domestic circulation; where we are to deduce the principles of banking. This is the great engine calculated for carrying it on.

That I may, with order, investigate the many combinations we shall here meet with, I must point out wherein banks differ from one another in point of policy, as well as in the principle upon which their credit is built.

If we consider them relative to their policy, I divide them into banks of circulation, and banks of deposit. This every one understands.

If according to their principle, they are established either on *private*, or *mercantile*, or *public credit*.

This last division I must attend to in the distribution of what is to follow; and therefore it is proper to set out by explaining what I understand by the terms I have here introduced.

1^{mo}, Private credit. This is established upon a security, real or personal, of value sufficient to make good the obligation of repayment both of capital and interest. This is the most solid of all.

2^{mo}, Mercantile credit. This is established upon the confidence the lender has, that the borrower, from his integrity and knowledge in trade, may be able to replace the capital advanced, and the interest due during the advance, in terms of the agreement. This is the most precarious of all.

3^{tio}, Public credit. This is established upon the confidence reposed in a state, or body politic, who borrow money upon condition that the capital shall not be demandable; but that a certain proportional part of the sum shall be annually paid, either in lieu of interest, or in extinction of part of the capital; for the security of which, a permanent annual fund is appropriated, with a liberty, however, to the state to liberate itself at pleasure, upon repaying the whole; when nothing to the contrary is stipulated.

The solidity of this species of credit depends upon circumstances.

The difference between the three kinds of credit lies more in the object of the confidence, and the nature of the security, than in the condition of the borrower. Either a private man, a merchant, or a state, may pledge, for the security of a loan, a real or a moveable security, with an obligation to refund the capital. In this case, the obligation stands upon the solid basis of private credit.

Either a private man, a merchant, or a state, may strike out projects which carry a favorable appearance of success, and thereupon borrow considerable sums of money, repayable with interest. In this case, the obligation stands upon a mercantile credit.

Either a private man, a merchant, or a state, may pledge (for the security of money borrowed) a perpetual annual income, the fund of which is not their property, without any obligation to refund the capital: such obligations stand upon the principles of public credit.

I allow there is a great resemblance between the three species of credit here enumerated: there are however some characteristic differences between them.

imo, In the difficulty of establishing and supporting them.

Private credit is inseparable, in some degree, from human society. We find it subsisting in all ages: the security is palpable, and the principles on which it is built are simple and easy to be comprehended. Public credit is but a late invention: it is the infant of commerce, and of extensive circulation. It has supplied the place of the treasures of old, which

were constant and ready resources to statesmen in cases of public distress: the security is not palpable, nor readily understood, by the multitude; as it rests upon the stability of certain fundamental maxims of government. Mercantile credit is still more difficult to establish; because the security is the most precarious of any: it depends upon opinion and speculation, more than upon a fund provided for repayment of either capital or interest.

2do, They differ in the nature of the security and object of confidence.

Private credit has a determinate object of confidence, viz. the real existence of value in the hands of the debtor, sufficient to satisfy both capital and interest. Public credit has the visible security of a fund appropriated for the perpetual payment of the interest. Mercantile credit depends wholly upon the integrity, capacity, and good fortune of the debtor.

3tio, The third difference is with regard to the ease of transfer.

Public debts stand generally on the same bottom. No part of the same fund is better than another: the price of them is publicly known, and the securities are laid in the most convenient way for transfer, that is, circulation, without consent of the debtor. This is far from being the case in private securities. Nor is it the case in the mercantile, except in bills payable to order, in which case alone, the creditor can effectually transfer without the consent of the debtor.

4to, The fourth difference is discovered in the stability of the confidence.

Nothing can shake private credit, but an appearance of insolvency in the very debtor. But the bankruptcy of one considerable merchant, will give a very great shock to mercantile credit over all Europe: and nothing will hurt public credit, so long as the stipulated interest continues regularly to be paid, and so long as the funds appropriated for that payment remain entire.

From what has been said, I hope the three species of credit have been sufficiently explained; and from what is to follow, we shall feel the utility of this distribution.

C H A P. II.

Of private Credit.

PRIVATE credit is either real, personal, or mixed.

Real security or credit, every body understands. It is the object of law, not of politics, to give an enumeration of its different branches. By this term we understand no more than the pledging an immoveable subject for the payment of a debt. As by a personal security we understand the engagement of the debtor's whole effects for the relief of his creditors. The mixed, I have found it necessary to superadd, in order to explain with more facility, the security of one species of banks. The notes issued by banks upon private credit, stand upon a mixed security: that is, both real and personal. Personal, so far as they affect the banker, and the

banking stock pledged for the security of the paper: and in the second place, upon the securities, real and personal, granted to the banker for the notes he lends, which afterwards enter into circulation.

The ruling principles in private credit, and the basis on which it rests, is the facility of converting, into money, the effects of the debtor; because the capital and interest are constantly supposed to be demandable. The proper way, therefore, to support this sort of credit to the utmost, is to contrive a ready method of appretiating every subject affectable by debts; and secondly, of melting it down into symbolical or paper money.

In former times, when circulation was confined, the scheme of melting down the property of debtors, for the payment of creditors, was impracticable; and accordingly we see that capitals secured on land property were not demandable. This formed another species of credit, different from any we have mentioned; which only differed from public credit in this, that the solid property producing the income, was really in the hands of the debtor. This subdivision we have omitted, as its basis rests solely upon the regular payment of the interest. Of this nature are the contracts of constitution in France, and the old infeftments of annual rent in Scotland. There are few nations, I believe, in Europe where a vestige, at least, of this kind of security does not remain.

In order, then, to carry private credit to its greatest extent, all entails upon lands should be dissolved; all obligations should be regularly recorded in public

registers; the value of all lands should be ascertained, the moment any security is granted upon them; and the statesman should interpose between parties, to accelerate the liquidation of all debts, in the shortest time, and at the least expense possible.

Although this method of proceeding be the most effectual to secure, and to extend private credit, yet it is not, at all times, expedient to have recourse to it; as we have abundantly explained in the 27th chapter of the second book; and therefore I shall not here interrupt my subject with a needless repetition.

C H A P. III.

Of Banks.

IN deducing the principles of banks, I shall do the best I can to go through the subject systematically.

I have divided credit into three branches, private, mercantile, and public. This distribution will be of use on many occasions, and shall be followed as far as it will go, consistently with perspicuity: but as I have often observed of subjects of a complex nature, they cannot be brought under the influence of a few general principles, without running into the modern vice of forming systems, by wire-drawing many relations in order to make them answer.

The great operations of domestic circulation are better discovered by an examination of the principles upon which we find banking established, than by any other method I can contrive. It has been by inquiry into the nature of those banks which are

the most remarkable in Europe, that I have gathered the little knowledge I have of the theory of circulation. This induces me to think that the best way of communicating my thoughts on that subject, is to lay down the result of my inquiries relative to the very object of them.

After comparing the operations of different banks in promoting circulation, I find I can divide them, as to their policy, into two general classes, viz. those which issue notes payable in coin to bearer; and those which only transfer the credit written down in their books from one person to another.

Those which issue notes, I call banks of circulation; those which transfer their credit, I call banks of deposit.

Both indeed may be called banks of circulation, because by their means circulation is facilitated; but as different terms serve to distinguish ideas different in themselves, those I here employ, will answer the purpose as well as any others, when once they are defined; and circulation undoubtedly reaps far greater advantages from banks which issue notes transferable every where, than from banks which only transfer their credit on the very spot where the books are kept.

I shall, according to this distribution, first explain the principles upon which the banks of circulation are constituted and conducted, before I treat of the other.

This will lead me to avail myself of the division I have made of credit, into private, mercantile, and public: because, according to the purposes for

which a bank is established, the ground of confidence, that is, the credit of the bank, is settled upon one or other of them.

In countries where trade and industry are in their infancy, credit must be little known; and they who have solid property, find the greatest difficulty in turning it into money, without which industry cannot be carried on, as we have abundantly explained in the 26th chapter of the second book; and consequently the whole plan of improvement is disappointed.

Under such circumstances, it is proper to establish a bank upon the principles of private credit. This bank must issue notes upon land and other securities, and the profits of it must arise from the permanent interest drawn for the money lent.

Of this nature are the banks of Scotland. To them the improvement of that country is entirely owing; and until they are generally established in other countries of Europe, where trade and industry are little known, it will be very difficult to set those great engines to work.

Although I have represented this species of banks, which I shall call *banks of circulation upon mortgage*, as peculiarly well adapted to countries where industry and trade are in their infancy, their usefulness to all nations, who have upon an average a favorable balance upon their trade, will sufficiently appear upon an examination of the principles upon which they are established.

It is for this reason, that I have applied myself to reduce to principles all the operations of the Scotch

banks, while they were in the greatest distress imaginable, from the heavy balance the country owed during the last years of the late war, and for some time after the peace in 1763. By this I flatter myself to do a particular service to Scotland, as well as to suggest hints which may prove useful, not only to England, but to all commercial countries, who, by imitating this establishment, will reap advantages of which they are at present deprived.

For these reasons, I hope the detail I shall enter into with regard to Scotland, will not appear tedious, both from the variety of curious combinations it will contain, as also from the lights it will cast upon the whole doctrine of circulation, which is the present object of our attention.

In countries where trade is established, industry flourishing, credit extensive, circulation copious and rapid, as in England, banks upon mortgage, however useful they may prove for other purposes, would not answer the demands of the trade of London, and the service of government, so well as the bank of England.

The ruling principle of that bank, and the ground of their confidence, is mercantile credit. The bank of England does not lend upon mortgage, nor personal security: their profits arise from discounting bills; loans to government, upon the faith of taxes, to be paid within the year; and upon the credit cash of those who deal with them.

A bank such as that of England, cannot therefore be established, except in a great wealthy mercantile city, where the accumulation of the smallest

profits amount, at the end of the year, to very considerable sums.

In France, under the regency of the Duke of Orleans, there was a bank erected upon the principles of public credit. The ground of confidence there, and the only security for all the paper they issued, were the funds appropriated for the payment of the interest of the public debts.

It is for the sake of order and method, that I propose to explain the principles of banking, according to this distribution. I must however confess, that although I represent each of them as having a cause of confidence peculiar to itself, to wit, either private, mercantile, or public credit; yet we shall find a mixture of all the three species of credit entering into the combination of every one of them.

Banking, in the age we live, is that branch of credit which best deserves the attention of a statesman. Upon the right establishment of banks, depends the prosperity of trade, and the equable course of circulation. By them * *solid property* may be

* Solid property, here, is not taken in the strictest acceptance. In countries of commerce, where banks are generally established, every denomination of good personal security, may be considered as solid property. Those who have personal estates may obtain credit from banks as well as landed men; because these personal estates are secured either on lands, or in the funds, or in effects which contain as real a value as lands, and these being affected by the securities which the proprietors grant to the bank, may with as much propriety be said to be melted down, as if they consisted in lands. In subjects of this nature, it is necessary to extend our combinations, in proportion to the circumstances under which we reason.

melted down. By the means of banks, money may be constantly kept at a due proportion to alienation. If alienation increases, more property may be melted down. If it diminishes, the quantity of money stagnating, will be absorbed by the bank, and part of the property formerly melted down in the securities granted to them, will be, as it were, consolidated anew. These must pay for the country the balance of their trade with foreign nations. These keep the mints at work; and it is by their means, principally, that private, mercantile, and public credit, is supported. I can point out the utility of banks in no way so striking, as to recal to mind the surprising effects of Mr. Law's bank, established in France, at a time when there was neither money or credit in the kingdom. The superior genius of that man produced, in two years time, the most surprising effects imaginable; he revived industry; he established confidence; and showed to the world, that while the landed property of a nation is in the hand of the inhabitants; and while the lower classes are willing to be industrious, money never *can* be wanting. I must now proceed in order, toward the investigation of the principles which influence this intricate and complicated branch of my subject.

C H A P. IV.

Of Banks of Circulation upon Mortgage or private Credit.

BANKS of circulation upon mortgage or private credit, are those which issue notes upon private security, payable to bearer on demand, in the current coin of the nation. They are constituted in the following manner.

A number of men of property join together in a contract of banking, either ratified or not by public authority, according to circumstances. For this purpose, they form a stock which may consist indifferently of any species of property. This fund is engaged to all the creditors of the company, as a security for the notes they propose to issue. So soon as confidence is established with the public, they grant credits, or cash accompts, upon good security; concerning which they make the proper regulations. In proportion to the notes issued in consequence of those credits, they provide a sum of coin, such as they judge to be sufficient to answer such notes as shall return upon them for payment. Nothing but experience can enable them to determine the proportion between the coin to be kept in their coffers, and the paper in circulation. This proportion even varies according to circumstances, as we shall afterwards observe.

The profits of the bank proceed from the interest paid upon all the securities which have been granted to it,

to it, in consequence of credits given, and which remain with it unretired.

Out of which must be deducted, first, the charge of management; secondly, the loss of interest for all the coin they preserve in their coffers, as well as the expense they are put to in providing it; and thirdly, the expense of transacting and paying all balances due to other nations.

In proportion, therefore, as the interest upon the bank securities exceeds the loss of interest on the coin in the bank, the expense of management, and of providing funds abroad to pay balances, in the same proportion is their profit; which they may either divide, accumulate, or employ, as they think fit.

Let it be observed, that I do not consider the original bank stock, or the interest arising from *that*, as any part of the profits of the bank. So far as regards the bank, it is their original property; and so far as regards the public, it serves for a collateral security to it, for the notes issued. It becomes a pledge, as it were, for the faithful discharge of the trust reposed in the bank: without such a pledge, the public could have no security to indemnify it, in case the bank should issue notes for no permanent value received. This would be the case, if they thought fit to issue their paper either in payment of their own private debts, for articles of present consumption; or in precarious trade.

When paper is issued for no value received, the security of such paper stands alone upon the original capital of the bank, whereas when it is issued for value received, that value is the security on which

it immediately stands, and the bank stock is, properly speaking, only subsidiary.

I have dwelt the longer upon this circumstance, because many, who are unacquainted with the nature of banks, have a difficulty to comprehend how they should ever be at a loss for money, as they have a mint of their own, which requires nothing but paper and ink to create millions. But if they consider the principles of banking, they will find that every note issued for value consumed, in place of value received and preserved, is neither more or less, than a partial spending either of their capital, or profits on the bank. Is not this the effect of the expense of their management? Is not this expense paid in their notes? But did ever any body imagine that this expense did not diminish the profits of banking? Consequently, such expense may exhaust these profits, if carried far enough; and if carried still farther, will diminish the capital of the banking stock.

As a farther illustration of this principle, let me suppose, an honest man, intelligent, and capable to undertake a bank. I say that such a person, without one shilling of stock, may carry on a bank of domestic circulation, to as good purpose as if he had a million; and his paper will be every bit as good as that of the bank of England. Every note he issues, is secured on good private security; that security carries interest to him, and stands good for the notes he has issued. Suppose then that after having issued for a million sterling, all the notes should return upon him in one day. Is it not plain,

that they will find, with the honest banker, the original securities, taken by him at the time he issued them; and is it not true, that he will have, belonging to himself, the interest received upon these securities, while his notes were in circulation, except so far as this interest has been spent in carrying on the business of his bank? Large bank stocks, therefore, serve only to establish their credit; to secure the confidence of the public, who cannot see into their administration; but who willingly believe, that men who have considerable property pledged in security of their good faith, will not probably deceive them.

This stock is the more necessary, from the obligation of paying in the metals. Coin may be wanting, upon some occasions, to men of the greatest landed property. Is that any reason to suspect their credit? Just so of banks. The bank of England may be possessed of twenty millions sterling of good effects, to wit, their capital; and the securities for all the notes they have issued; and yet that bank might be obliged to stop payment, upon a sudden demand of a few millions of coin.

Runs upon a bank well established, betray great want of confidence in the public: and this want of confidence proceeds from the ignorance the greatest part of men are in, with regard to the state of their affairs, and of the principles upon which their trade is carried on.

From what has been said, we may conclude, that the solidity of a bank which lends upon private security, does not so much depend upon the extent

of their original capital, as upon the regulations they observe in granting credit. In this the public is nearly interested; because the bank securities are really taken for the public, who are creditors upon it in virtue of the notes which circulate through their hands.

CHAP. V.

Such Banks ought to issue their Notes on private, not mercantile Credit.

LET me, therefore, reason upon the example of two bankers; one issues his notes upon the best real or personal security; another gives credit to merchants and manufacturers, upon the principles of mercantile credit, which we have explained above; the notes of the one and the other enter into circulation, and the question comes to be, which are the best? If we judge by the regularity of the payment of notes on presentation, perhaps the one are as readily paid as the other. If we judge by the stock of the two bankers, perhaps they may be equal, both in value and solidity; but it is not upon either of these circumstances that the question depends. The notes in circulation may far exceed the amount of the largest bank stock; and therefore, it is not on the original stock; but on the securities taken at issuing the notes, that the solidity of the two currencies is to be estimated. Those secured on private credit, are as solid as lands and personal estates; they stand upon the principles of private

credit. Those secured on the obligations of merchants and manufacturers, depending upon the success of their trade, are good or bad in proportion. Every bankruptcy of one of their debtors, involves the bank, and carries off either a part of their profits, or of their stock. Which way, therefore, can the public judge of the affairs of bankers, except by attending to the nature of the securities upon which they give credit *.

CHAP. VI.

Use of subaltern Bankers and Exchangers.

HERE it may be urged, that the great use of banks is to multiply circulation, and to furnish the industrious with the means of carrying on their traffic: that if banks insist upon the most solid securities before they give credit, the great utility of them must cease; because merchants and manufactures are never in a situation to obtain credit upon such terms.

This argument only proves, that banks are not,

* It must be observed, that in this example, the banker who issues his notes upon mercantile security, is supposed to grant a permanent loan to the merchant or manufacturer, as he would do to those who pledge a personal security. This is totally repugnant to the principle of banks secured on mercantile credit. Such banks never grant loans for indefinite duration, upon any security whatsoever. They will not even discount a bill of exchange, when it has above two months to run.

alone, sufficient for carrying on every branch of circulation. A truth which no body will controvert. But as they are of use in carrying on the great branches of circulation, it is proper to prevent them from engaging in schemes which may destroy their credit altogether.

I have observed above, that this method of issuing notes upon private security, was peculiarly well adapted to countries like Scotland, where trade and industry are in their infancy.

Merchants and manufacturers there, have constant occasion for money or credit; and at the same time, they cannot be supposed to have either real or personal estates to pledge, in order to obtain a loan directly from the banks, who ought to lend upon no other security.

To remove that difficulty, we find a set of merchants, men of substance, who obtain from the banks very extensive credits upon the joint real and personal security of themselves and friends. With this assistance from the bank, and with money borrowed from private people, repayable on demand, something below the common rate of interest, they support the trade of Scotland, by giving credit to the merchants and manufacturers.

To this set of men, therefore, are banks of circulation upon mortgage to leave that particular branch of business. It is their duty, it is the interest of the country, and no less that of banks, that they be supported in so useful a trade; a trade which animates all the commerce and manufactures of Scotland, and which consequently promotes the

circulation of those very notes upon which the profits of the banks do arise.

These merchants are settled in all the most considerable towns: they are well acquainted with the stock, capacity, industry, and integrity of all the dealers in their district: they are many; and by this are able to go through all the detail which their business requires; and their profits, as we shall see presently, are greater than those of banks, who lend at a stated interest.

The common denomination by which they are called in Scotland, is that of bankers; but to avoid their being confounded with bankers in England (whose business is very different) we shall, while we are treating of the doctrine of banks, call them by the name of exchangers, since their trade is principally carried on by bills of exchange.

As often as these exchangers give credit to dealers in any way, they constantly state a commission of $1\frac{1}{2}$ per cent. or more, according to circumstances, over and above the interest of their advance; profits, which greatly surpass those of any bank. One thousand pounds credit given by a bank, may not produce ten pounds in a year for interest: if given by a banker, to a merchant, who draws it out, and replaces it forty times in a year, there will arise upon it a commission of 20 per cent. or 200 l.

This set of men are exposed to risks and losses, which they bear without complaint, because of their great profits; but it implies a detail, which no bank can descend to.

These exchangers give way, from time to time;

and no essential hurt is thereby occasioned to national credit. The loss falls upon those who lend to them, or trust them with their money, upon precarious security; and upon merchants, who lay their account with such risks. In a word, they are a kind of insurers, and draw premiums in proportion to their risks.

To this set of men, therefore, it should be left to give credit to merchants, as the credit they give is purely mercantile; and to banks alone, who give credit on good private security, it should be left to conduct the great national circulation, which ought to stand upon the solid principles of private credit.

From this example we may discover the justness of the distinction I have made between *private* and *mercantile* credit: had I not found it necessary, I would not have introduced it.

C H A P. VII.

Concerning the Obligation to pay in Coin, and the Consequences thereof.

IN all banks of circulation upon mortgage, the obligation in the note is, to pay in coin, upon demand: and in the famous book of Mr. Law, there was a very necessary clause added; to wit, that the coin was to be of the same weight, fineness, and denomination, as at the date of the note. This was done, in order to prevent the inconveniencies

which might result to either party, by an arbitrary raising or sinking the denominations of the coin; a practice then very familiar in France.

This obligation to pay in coin, owes its origin to the low state of credit in Europe at the time when banks first began to be introduced; and it is not likely that any other expedient will soon be fallen upon to remove the inconveniences which result from it in domestic circulation, as long as the generality of people consider all money, except coin, to be false and fictitious.

I have already thrown out abundance of hints, from which it may be gathered, that coin is not absolutely necessary for carrying on domestic circulation, and more will be said on that subject, as we go along. But I am here to examine the nature and consequences of this obligation contracted by banks, to discharge their notes in the current coin of the country.

In the first place, it is plain, that no coin is ever (except in very particular cases) carried to a bank, in order to procure notes. The greatest part of notes issue from the banks, of which we are treating, either in consequence of a loan, or of a credit given by the bank, to such as can give security for them. The loan is made in their own notes; which are quickly thrown into circulation by the borrower; who borrowed, because he had occasion to pay them away. In like manner, when a credit is given, the bank pays (in her notes) the orders she receives from the person who has the credit: in this manner are notes commonly issued from a bank.

Coin, again, comes to a bank, in the common course of circulation, by payments made to it, either for the interest upon their loans, or when merchants and landed men throw the payments made to them into the bank, towards filling up their credits; and by way of a safe deposit for their money. These payments are made to the bank in the ordinary circulation of the country. When there is a considerable proportion of coin in circulation, then the bank receives much coin; and when there is little, they receive little. Whatever they receive is laid by to answer notes which are offered for payment; but whenever a draught is made upon them for the money thrown in as above, they pay in paper.

As we are here searching after principles, not after facts, it is out of our way to inquire what may be the real proportion of coin preserved by banks of circulation, for answering the demand for it.

Mr. Megens, a very knowing man, and a very judicious author, lately dead, who has writ a small treatise in the German tongue, translated into English, under the title of *The Universal Merchant*, delivers his sentiments concerning the proportion of coin preserved in the bank of England, which I shall here transcribe in the translator's words. Sect. 60.

The bank of England consists of two sorts of creditors, the one of that set of men, who, in King William's time, when money was scarce and dear, lent the public 1,200,000 pounds, at 8 *per cent.* interest, and 4000 pounds were allowed them for charges, amounting in whole to 100,000 pounds a year, an exclusive right of banking as a corporation,

for 13 years, under the denomination of the proprietors of the bank; and which, for obtaining prolongation of their privileges, has been since increased by farther loans to the public at a less interest, to near the sum of 11,000,000 pounds, which if we compute the interest at 3 *per cent.* (as what they have more on some part answers incident charges) it produces 330,000 pounds a year; and as they divide annually 5 *per cent.* to their proprietors, which is 550,000 pounds, it is evident that they make a yearly profit of 220,000 pounds, *out of the money of the people who keep cash with them*, and these are the other sort of creditors: and as for what money the bank lends to the government, they have for the most part but 3 *per cent.* interest, I conclude that *the credit cash they have in their hands* may amount to 11,000,000 pounds, and thereout is employed in loans to the government, discounting of bills, and in buying gold and silver 7,333,333 $\frac{1}{3}$ pounds, which at 3 *per cent.* interest or profit, will amount to the above 220,000 pounds, and remains 3,666,666 $\frac{2}{3}$ pounds in cash, sufficient for circulation and current payments. And experience has evinced, that whenever any mistrust has occasioned any run upon the bank for any continuance, and the people not finding the treasure so soon exhausted as they surmised, it flowed in again faster on the one hand than it was drawn out on the other.

This gentleman lived long in England. He was very intelligent in matters relating to commerce; and his authority may, I believe, be relied on as much as on any other, except that of the bank itself;

which, it would appear, has some interest in keeping those affairs a secret.

We see by his account, that the bank of England keeps in coin $\frac{1}{3}$ of the value of all their notes in circulation. With this quantity, business is carried on with great smoothness, owing to the prosperity of that kingdom, which seldom owes any considerable balance to other nations.

But the consequence of the obligation to pay in coin, is, that when the nation comes to owe a balance, the notes which the bank had issued to support domestic circulation *only*, come upon it for payment of a foreign balance, and thereby the coin which it had provided for home demand only, is drawn out.

It is this circumstance, above all others, which distresses banks of circulation. Were it not for this, the obligation to pay in coin might easily be discharged; but when in virtue of this pure obligation, a heavy national balance is demanded of the bank, which has only made provision for the current and ordinary demand at home, it requires a little combination to find out, at once, an easy remedy.

This combination we shall, in the following chapters, endeavour to unfold: it is by far the most intricate, and at the same time the most important in the whole doctrine of banks of circulation.

Another inconvenience resulting from this obligation to pay in coin, we have explained in the third book. It is, that the confusion of the English coin, and the lightness of a great part of it, obliges

the bank of England to purchase the metals at a price far above that which they can draw back for them after they are coined. We have there shown the great profit that might be made in melting down and exporting the heavy species. This profit turns out a real loss to the bank of England, which is constantly obliged to provide new coin, in proportion as it is wanted. This inconvenience is not directly felt by banks, in countries where there is no mint established.

Here then is another bad consequence of this obligation to pay in the metals, which a proper regulation of the coin would immediately remove. In countries which abound in coin, banking is an easy trade, when once their credit is well established. It is only when either a foreign war, or a wrong balance of trade has carried off the metals, that the weight of this obligation to pay in coin is severely felt.

C H A P. VIII.

How a wrong Balance of Trade affects Banks of Circulation.

IT is commonly said, that when there is a balance due by any nation, upon the whole of their mercantile transactions with the rest of the world, such balance must be paid in coin. This we call a wrong balance. Those who transact the payment of this balance, are those who regulate the course of exchange; and we may suppose, without the least

danger of being deceived, that the course is always higher than the expense of procuring and transporting the metals; because the overcharge is profit to the exchanger, who without that profit could not carry on his business.

These exchangers, then, must have a command of coin; and where can they get it so easily, and so readily, as from banks who are bound to pay in it?

Every merchant who imports foreign commodities, must be supposed to have value in his hands from the sale of them; but this value must consist in the money of the country: if that be mostly bank paper, he must give the bank paper to the exchangers for a bill, whose business it is to place funds in those parts upon which bills are demanded. The exchanger again (to support that fund which he exhausts by his draughts) must demand coin from the banks, for the notes he received from the merchant when he gave him the foreign bill.

Besides the wrong balances of trade transacted in this manner, which banks are constantly obliged to make good in coin, every other payment made to foreigners has the same effect. It is not because it is a *balance of trade*, but because it is a payment which cannot be made in paper currency, that a demand is made for coin. Coin we have called the money of the world, as notes may be called the money of the society. The first then must be procured when we pay a balance to foreigners; the last is full as good when we pay among ourselves.

It is proper, however, to observe, that there is a

great difference between the wrong *balance of trade*, and the general *balance of payments*. The first marks the total loss of the nation when her imports exceed the value of her exports; the second, comprehends three other articles, viz. 1. the expence of the natives in foreign countries; 2. the payment of all debts, principal and interest, due to foreigners, 3. the lending to other nations.

These three I call the general balance of foreign payments: and these added to the wrong balance of trade may be called the *grand balance* with the world.

Now as long as the payment of this *grand balance* is negotiated by exchangers, all the coin required to make it good, must be at the charge of banks.

How then is this coin to be procured by nations who have no mines of their own?

C H A P. IX.

*How a grand Balance may be paid by Banks,
without the assistance of Coin.*

DID all the circulation of a country consist in coin, this *grand balance*, as we have called it, would be paid out of the coin, to the diminution of it.

We have said that the acquisition of coin, or of the precious metals, adds to the intrinsic value of a country, as much as if a portion of territory were added to it. The truth of this proposition will now soon appear evident.

We have also said, that the creation of symbolical money, adds no additional wealth to a country, but only provides a fund of circulation out of solid property; which enables the proprietors to consume and to pay proportionally for their consumption: and we have shown how by this contrivance trade and industry are made to flourish.

May we not conclude, from these principles, that as nations who have coin, pay their *grand balance* out of their coin, to the diminution of that species of their property, so nations who have melted down their solid property into symbolical money, must pay their *grand balance* out of the symbolical money; that is to say, out of the solid property of which it is the symbol?

But this solid property cannot be sent abroad; and it is alledged that nothing but coin can be employed in paying this *grand balance*. To this I answer, that in such a case the credit of a bank may step in, without which a nation which runs short of coin, and which comes to owe a *grand balance* must quickly be undone.

We have said that while exchangers transact the balance, the whole load of providing coin lies upon banks. Now the whole solid property melted down, in their paper, is in their hands; because I consider the securities given them for their paper, to be the same as the property itself. Upon this property, there is a yearly interest paid to the bank: this interest, then, must be engaged by them to foreigners, in lieu of what is owing to them by the nation; and when once a fund is borrowed upon it abroad,
the

the rest is easy to the bank. This shall be further explained as we go along.

I do not pretend that the common operation of providing coin, when the *grand balance* is against a nation, is as simple as I have represented it. I know it is not: and I know also, that I am not in any degree capable to explain the infinite combination of mercantile operations necessary to bring it about; but it is no less true, that these combinations may be shortened: because when the whole of them have been gone through, the transaction must land in what I have said; to wit, that either the *grand balance* must be paid out of the national stock of coin, or it must be furnished by foreigners upon a loan from them; the interest of which must be paid out of that part of the solid property of the nation which has been melted down into paper. I say farther, that were not all this solid property, so melted down, in the hands of banks, who thereby have established to themselves an enormous *mercantile* credit; there would be no possibility of conducting such an operation: that is to say, there would be no possibility for nations to run in debt to nations, upon the security of their respective landed property.

C H A P. X.

*Insufficiency of temporary Credits for the Payment
of a wrong Balance.*

I H A V E said, that when the national stock of coin is not sufficient to provide banks with the quantity demanded of them, for the payment of the *grand balance*, that a loan must take place. To this it may be objected, that a credit is sufficient to procure coin, without having recourse to a formal loan. The difference I make between a loan and a credit consists in this, that by a credit we understand a temporary advance of money, which the person who gives the credit expects to have repaid in a short time, with interest for the advance, and commission for the credit; whereas by a loan we understand the lending of money for an indefinite time, with interest during non-payment.

Now I say, the credit, in this case, will not answer the purpose of supplying a deficiency of coin; unless the deficiency has been accidental, and that a return of coin, from a new favorable *grand balance*, be quickly expected. The credit will indeed answer the present exigency; but the moment this credit comes to be replaced, it must be replaced either by a loan, or by a supply of coin; but, by the supposition, coin is found to be wanting for paying the *grand balance*; consequently, nothing but a loan, made by the lenders either in coin, in the metals, or in a liberty to draw, can remove

the inconvenience; and if recourse be had to credit, instead of the loan, the same difficulty will recur, whenever that credit comes to be made good by repayment.

Upon the whole, we may conclude, that nations who owe a balance to other nations, must pay it either with their coin, or with solid property; consequently, the acquisition of coin is, in this particular, as advantageous as the acquisition of lands; but when coin is not to be procured, the transmission of the solid property to foreign creditors is an operation which banks must undertake; because it is they who are obliged either to do that, or to pay in coin.

C H A P. XI.

*Of the Hurt resulting to Banks, when they leave the
Payment of a wrong Balance to Exchangers.*

WE have seen in a former chapter, how exchangers and banks are mutually assistant to one another: the exchangers by swelling and supporting circulation; the bank by supplying them with credit for that purpose. While parties are united by a common interest, all goes well: but interest divides, by the same principle that it unites.

No sooner does a nation incur a balance against itself, than exchangers set themselves to work to make a fortune, by conducting the operation of paying it. They appear then in the light of political

usurers, to a spendthrift heir who has no guardian. The guardian should be the bank, who, upon such occasions, (and upon such only) ought to interpose between the nation and her foreign creditors. This it may do, by constituting itself at once debtor for the whole balance, and by taking foreign exchange into its hand, until such time as it shall have distributed the debt it has contracted for the nation, among those individuals who really owe it. This operation performed, exchange may be left to those who make that branch their business, because then they will find no opportunity of combining either against the interest of the bank or of individuals.

When a national bank neglects so necessary a duty, as well as so necessary a precaution, the whole class of exchangers become united by a common interest against it; and the country is torn to pieces, by the fruitless attempt it makes to support itself, without the help of the only expedient that can relieve it.

Those exchangers having the *grand balance* to transact with other nations, make use of their credits with the bank, or of its notes, to draw from it their coin, in order to export it. This throws a great load upon the bank, which is constantly obliged to provide a sufficient quantity for answering all demands; for we have laid it down as a principle, that whatever coin or bills are necessary to pay this *grand balance*, in every way it can be transacted, it must ultimately be paid by the bank; because whoever wants coin for any purpose, and has

bank notes, can force the bank to pay in coin, or stop payment.

It cannot, therefore, be said, that exchangers do wrong; nor can they be blamed, in drawing from the bank whatever is wanted for the purpose of paying to foreigners what is their due; that is, what is justly owing to them. If they do more, they must hurt themselves; because whatever is sent abroad more than is due, must constitute the rest of the world debtors to the country which sends out their coin. The consequence of this is to turn exchange against foreigners, and to make it favorable for the nation which is creditor. In this case, were the creditors still to continue sending coin abroad, they would *lose* by that operation, for the same reason that they *gain*, by sending it out when they are debtors.

It is very common for banks to complain, when coin is hard to be procured, and when large demands are made upon them; they then alledge unfair dealings against exchangers; they fall to work to estimate the balance of trade, and endeavour to show that it is not in reality against the country.

But alas! this is nothing to the purpose; the *balance of trade* may be very favorable, although the *balance of payments* be greatly against the country; and both must be paid, while the bank has a shilling of cash, or a note in circulation. So soon again as the *grand balance* is fairly paid off, it is impossible that any one can find an advantage in drawing coin from a bank; except in the single case of melting down the heavy species, in nations which give

their coinage gratis. Of this we have treated at sufficient length in another place.

Banks may indeed complain, that men of property are sometimes sending their money out of the country, at a time when it is already drained of its coin; that this raises exchange, and hurts the trading interest.

Exchange must rise, no doubt, in proportion as the grand balance is great, and difficult to be paid: But where does the blame lie? Who ought to provide the coin, or the bills for paying this grand balance? Have we not shown that it is the bank alone who ought to provide coin for the ready answering of their notes? Have we not said, that the method of doing this is by sacrificing a part of the interest due upon the obligations in their hands, secured upon the solid property of the country, and by the means of foreign loans upon that fund, to procure either the metals themselves, or a power to draw on those places where the nation's creditors reside?

Which of the two has most reason to complain, the bank, because the inhabitants think fit to send their effects out of the country, being either forced so to do by their creditors, or chusing so to do for their private advantage; or the creditors of the bank, and the country in general, when, from the obstructions the bank throws in the way, when required to pay its notes, exchange is forced up to an exorbitant height; the value of what private merchants owe to strangers is raised; and when, by discouraging trade in their hands, a general stop is put to manufactures and credit in general?

In a word, the bank has no reason to complain, unless they can make it appear, how any person, exchanger or other, can find an advantage in sending coin out of the country, at a time when there is no demand for it; or when there is no near prospect of it, which is the same thing? To say that a principle of public spirit should prevent a person from doing with his property what is most to his advantage, in favor of saving some money to a bank, is supposing the bank to be the public, instead of being the servant of the public.

Another argument to prove that no profit can be made by sending out coin, except when the balance is against a country, is, that we see all runs upon banks stop, the moment exchange becomes favorable. Were there a profit to be made upon sending off coin, independently of the debts to be paid with it, which cannot be paid without it, the same trade would be profitable at all times. As this is not the case, it follows, that the principle we have laid down is just; to wit, that the balance due to foreigners *must* be paid by banks, while they have a note in circulation; and when once it is fairly paid by them, all extraordinary demands *must* cease.

We now proceed to another point, to wit, What are the consequences to circulation, when a great balance draws away a large quantity of coin from the bank, and sends it out of the country?

C H A P. XII.

How the Payment of a wrong Balance affects Circulation.

THAT I may communicate my ideas with the greater precision, I must here enter into a short detail of some principles, and then reason on a supposition.

It has been said, that the consequence of credit and paper-money, secured on solid property, was to augment the mass of the circulating equivalent, in proportion to the uses found for it.

These uses may be comprehended under two general heads. The first, payment of what one owes; the second, buying what one has occasion for: the one and the other may be called by the general term of ready-money demands.

Whoever has a ready-money demand upon him, and property at the same time, ought to be furnished with money by banks which lend upon mortgage.

Now the state of trade, manufactures, modes of living, and the customary expense of the inhabitants, when taken all together, regulate and determine what we may call the mass of ready-money demands, that is, of alienation. To operate this multiplicity of payments, a certain proportion of money is necessary. This proportion again may increase or diminish according to circumstances; although the quantity of alienation should continue the same.

To make this evident, let us suppose the accounts

of a whole city kept by one man; alienation will go on without any payment at all, until accounts are cleared; and then nothing will be paid, but general balances upon the whole. This however is only by the bye. The point in hand is to agree, that a certain sum of money is necessary for carrying on domestic alienation; that is, for satisfying ready-money demands: let us call this quantity (A).

Next, in most countries in Europe, (I may say all) it is customary to circulate coin, which, for many uses, is found fitter than paper, (no matter for what reason); custom has established it, and with custom even statesmen must comply.

The paper-money is generally made payable in coin; from custom also. Now, according to the manners of the country, more or less coin is required for domestic circulation. Let it be observed, that hitherto we have not attended to foreign circulation, of which presently: and I say, that the manners of a country may make more or less coin necessary, for circulating the same quantity of paper; merchants, for instance, circulate much paper and little coin; gamesters much coin, and little paper: one example is sufficient.

Let this quantity of coin, necessary for circulating the paper-money, be called (B), and let the paper be called (C); consequently (A) will be equal to the sum of (B) and (C). Again, we have said, that all balances owing by nation to nation, are paid either in coin, in the metals, or in bills; and that bank paper can be of no use in such payments. Let the quantity of the metals, coin, or bills,

going out or coming into the country for payment of such balance, be called (D).

These short designations premised, we may reason with more precision. (A) is the total mass of money (coin and paper) necessary at home: (A) is composed of (B) the coin, and of (C) the paper, and (D) stands for that mass of coin, or metal, or bills, which goes and comes according as the *grand balance* is favorable or unfavorable with other nations.

Now, from what has been said, we may determine that there should at all times remain in the country, or in the bank, a quantity of coin equal to (B); and if this be ever found to fall short, the bank does not discharge its duty. It is unnecessary to determine what part of (B) should be locked up in the bank, and what part should remain in circulation: banks themselves cannot determine that question: all we need to say is, that it is the profit of banks to accustom people to the use of paper as much as possible; and therefore they will draw to themselves as much coin as they can.

When a favorable balance of trade brings exchange below par, and brings coin into the country, the consequence is, either to animate trade and industry, to augment the mass of payments, to swell (A), and still to preserve (C) in circulation; or to make (A) regorge, so as to sink the interest of money below the bank lending price; and then people will carry back the regorging part of (C) to the bank, and withdraw their securities; which is consolidating, as we have called it, the

property which had been formerly melted down, for want of this circulating equivalent (money).

This is constantly the consequence of a stagnation of paper, from an overcharge of it, thrown into circulation. It returns upon the bank, and diminishes the mass of their securities, but never that of their coin.

From this we may conclude, that the circulation of a country can only absorb a determinate quantity of money (coin and paper); and that the less use they make of coin, the more use they will make of paper, and *vice versa*.

We may also conclude, that when trade and alienation increase, *ceteris paribus*, so will money; that is, more solid property will be melted down; and when trade and alienation diminish, *ceteris paribus*, so will money; that is, some of the solid property formerly melted down, will consolidate, as we have called it.

These vicissitudes in the mass of circulation are not peculiar to paper currency. In countries where nothing circulates but the metals, the case is the same; only the operation is more awkward and expensive. When coin becomes scarce there, it is hardly possible, in remote provinces, to find any credit at all; and in the centre of circulation, the use of it (interest) must rise very considerably, and stand high for some time, before even intelligent merchants will import bullion to the mint; which is the only bank they have to fit it for circulation. When the metal is coined, then men of property are enabled to borrow, or to sell their lands. On

the other hand, when a favorable balance pours in a superfluity of coin, and at the same time cuts off the demands of trade for sending it abroad, it frequently falls into coffers; where it becomes as useless as if it were in the mine; and this clumsy circulation, as I may call it, prevents it from coming into the hands of those who would have occasion for it, did they but know where to come at it. Paper, on the other hand, when banks and trade are well established, is always to be found. Thus, in an instant, paper-money either creates or extinguishes an interest equal to its value, in favor of the possessor. No part of it lies dead, not for a day, when employed in trade: it is not so of coin.

We must now suppose a bank established in a country which owes a balance to other nations.

In this case, the bank must possess, or be able to command, a sum of coin or bills equal to (B) and (D); (B) for domestic, and (D) for foreign circulation.

Those who owe this balance (D), and who are supposed to have value for it, in the currency of the country, in order to pay it, must either exhaust a part of (B), by sending it away, or they must carry a part of (C) to the bank, to be paid for in coin. If they pick up a part of (B) in the country, then the coin in circulation, being diminished below its proportion, the possessors of (C) will come upon the bank for a supply, in order to make up (B) to its former standard. Banks complain without reason. If they carry part of (C) to be changed at the bank, for the payment of (D), they thereby

diminish the quantity of (C); consequently there will be a demand upon the bank for more notes, to support domestic circulation; because those which have been paid in coin are returned to the bank, and have diminished the mass of (C); which therefore must be replaced by a new melting down of solid property.

Now I must here observe, that this recruit, issued to fill up (C) to the level, is an addition made to the mass of securities formerly lodged with the bank; and represents, not improperly, that part of the landed property of a country which the bank must dispose of to foreigners, in order to procure from them the coin or bills necessary for answering the demand of (D).

When notes, therefore, are carried to the bank for payment of debts due to the bank, they then diminish the mass of solid property melted down in the securities lodged in the bank: but when notes are carried to the bank, to be converted into coin or bills, for foreign exportation, they do not diminish the mass of the securities: on the contrary, the consequence is, to pave the way for the augmentation of them; because I suppose that the notes, so given in to the bank, and taken out of the circle, are to be replaced by the bank to domestic circulation, to which they belonged; and the bank must be at the expense of turning the value of these additional securities granted for them into coin or foreign bills.

Is not this quite consistent with reason, fact, and common sense? If a country contracts debts to

foreigners, is it not just the same case as when one man contracts a debt to another in the same society? Must not the ultimate consequence of this debt be, that it must be paid, either with the coin, with the moveables, or with the solid property of the debtor, transferred to the creditor, in lieu of the money owing?

When a nation can pay with its coin, or with its effects, (that is to say, with its product and manufactures) the operation is easily and mechanically performed by the means of trade: when these objects are not sufficient; or when land, or an annual and perpetual income out of it, must make up the deficiency; then more skill and expense is required; and this expense falling upon banks, makes their trade less lucrative than in times when commerce stands at par, or is bringing in a balance.

Were trade to run constantly against a country, the consequence would be, that the whole property of it would, by degrees, be transferred to foreigners. This the bank of St. George at Genoa has operated with regard to Corsica, as has been observed. But in that case, banks never could neglect laying down a plan whereby to avoid the loss they casually sustain, when such a revolution comes suddenly or unexpectedly upon them.

The method would be, to establish an annual subscription *abroad*, for borrowing a sum equivalent to the *grand balance*; the condition being to pay the interest of the subscriptions out of the revenue of the country.

If the security offered be good, there is no fear but subscribers will be found, while there is an ounce of gold and silver in Europe.

The bank of England has an expedient of another nature, in what they call their *circulation*; which is a premium granted to certain persons, upon an obligation to pay a certain sum of coin upon demand. This is done with a view to answer upon pressing occasions. But England being a prosperous trading nation, which seldom has any considerable *grand balance* against her, except in time of war, when the public borrowings supply in a great measure the deficiency, as shall be afterwards explained) this bank circulation is turned into a job; the subscriptions being lucrative, are distributed among the proprietors themselves, who make no provision for the demand; and were it again to come, (as has been the case) the subscribers would, as formerly, make a call on the bank itself, by picking up their notes, and pay their subscriptions with the bank's own coin.

To obviate this inconvenience, which was severely felt in the year 1745, the bank of England should have opened a subscription in some foreign country; Holland, for example; where she might have procured large quantities of foreign coin: such a seasonable supply would have proved a real augmentation of the metals; the supply they got from their own domestic subscribers was only fictitious*.

* At this time there was another circumstance, besides the demand of a balance to be paid abroad, which distressed the bank, viz. a suspicion which took place, that if the rebellion had succeeded, the credit of the bank would have totally failed.

This very case points out the great advantage of banks upon mortgage of private credit.

But banks in prosperous trading nations sit down with casual and temporary inconveniencies; and exchangers carry on a profitable trade, whether the nation be gaining or losing all the while. For such nations, and such only, are banks advantageous. Were banks established in Spain, Portugal, or any other country which pays a constant balance from the produce of their mines, they would only help on their ruin a little faster.

In the infancy of banking, and in countries where the true principles of the trade are not well understood, we find banks taking a general alarm, whenever a wrong balance of trade occasions a run upon them. This terror drives them to expedients for supporting their credit, which we are now to examine, and which we shall find to have a quite contrary tendency.

The better to explain this combination, we must recal to mind, that the payment of the *grand balance* in coin or bills is unavoidable to banks. We have said that this balance is commonly paid by exchangers, who pick up the coin in circulation; a thing the bank cannot prevent. This we have called exhausting a part of (B): the consequence of this is, to make the proprietors of (C) come upon the bank, and demand coin for filling up (B): to this the bank must also agree. But by these

We have said, that the credit of such banks ought to be established upon the principles of private securities only. If their notes be issued upon solid property, then no rebellion can influence them: but of this more hereafter.

operations

operations (C) comes to be diminished, below the level necessary for carrying on trade, industry, and alienation: upon which I have said there commonly comes an application to the bank to give more credit, in order to support domestic circulation, which if complied with, more solid property is consequently melted down.

This swells the mass of securities, and raises (A) to its former level. But here the bank has an option to refuse more credit: in the former operations it had none. Now if the bank, from a terror of being drained of coin, should refuse to issue notes upon new credits, for the demands of domestic circulation; in this case, I say, they fail in their duty to the nation, as banks, and hurt their own interest. As to their duty to the nation, I shall not insist upon it; but I think I can demonstrate that they fail in point of combination, with respect to their own interest, and that is enough.

I say, then, that as long as there is one single note in circulation, and any part of a grand balance owing, that note will come upon the bank for payment, without a possibility of its avoiding the demand. Refusing therefore credit, while any notes remain in the hands of the public, is refusing an interest which may help to make up the past losses: but of this more hereafter.

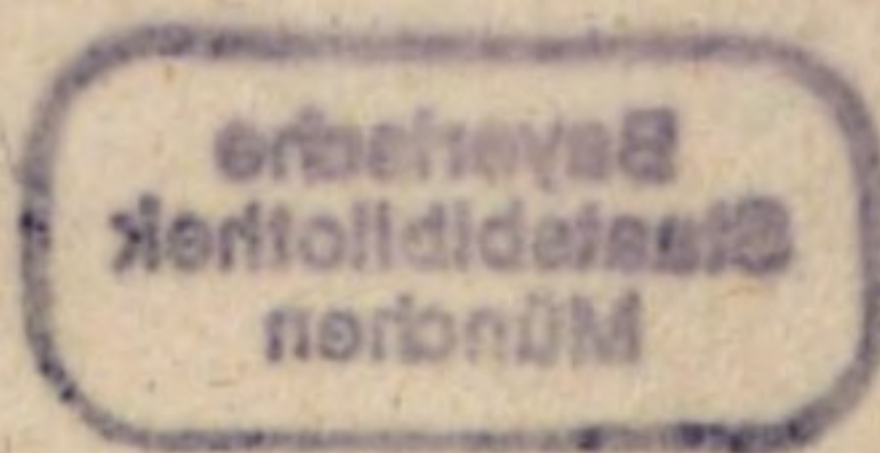
In the next place, I think I have demonstrated, that so soon as the *grand balance* is paid, it is impossible that any more demands for coin can come upon the bank for exportation. Why then should a bank do so signal a prejudice to their country, as

to refuse to lend them paper, which the ready-money demands of the country must suspend in circulation? And why do this at so great a loss to themselves? It has been said above, and I think with justice, that this recruit, issued to fill up circulation, adds to the mass of bank securities, and very properly represents that part of the income of the solid property of the country, which the bank must dispose of to foreigners, in order to procure from them the coin or bills necessary for answering the demand of payment of a *grand balance*.

In this light nothing can appear more imprudent, than to refuse credit.

A bank is forced to pay to the last farthing of this balance; by paying it, the notes that were necessary for circulation are returned to them; and they refuse to replace them, for fear that their supplying circulation should create a new balance against them! This is voluntarily taking on themselves all the loss of banking, and rejecting the advantages.

Such management can only be prudent when the circulating notes of a bank are very few, and when the balance is very great. In that case, indeed, were the thing possible, it might be prudent to give over banking for a while, till matters took a favorable turn. But if we suppose their notes to exceed the balance due, then all the hurt which can be done is done already; and the more notes are issued, and the more credit is given, so much the better; because the interest upon all that is issued above the balance, must be clear profit to the bank.



To bring what has been said within a narrower compass, and to lay it under our eye at once, let us call the domestic circulation of a country, where a bank is established, (A).

The specie itself, to carry it on, (B).

The balances to other nations, (D).

The bank must have a command of credit and coin equal to the sum of (B) and (D). If they have the value of (D) in any foreign place, where a general circulation of exchange is carried on; then they have only occasion for (B) at home, and can furnish bills to the amount of (D).

If (D), in consequence of bills drawn, shall come to be exhausted, the bank must replace it again, by new contracts, to strangers.

But as soon as (D) is paid, either in coin or in bills, then whatever coin is drawn from the bank, and sent away by private people, (exchangers, &c.) must form a balance due to the country; which balance will render exchange favorable, and will occasion a loss to those who sent away the coin. In this case, the more credit the bank gives, so much more will their profits increase.

To conclude: Let banks never complain of those who demand coin of them, except in the case when it is demanded in order to be melted down, or for domestic circulation, which may as well be carried on with paper.

And so soon as a demand for coin to pay a foreign balance begins, it is then both the duty and interest of all good citizens to be as assistant as possible to banks, by contenting themselves with paper

for their own occasions, and by throwing into the bank all the coin which casually falls into their hands. As to duty, I shall offer no argument to enforce it. But I say it becomes a national concern to assist the bank; because the loss incurred by the bank in procuring coin, falls ultimately on every individual, by raising exchange; consequently, prices, by raising the interest of money to be borrowed; and last of all, by constituting a perpetual interest to be paid to foreigners, out of the revenue of the solid property of the country. Upon such occasions, a good citizen ought to blush at pulling out a purse, when his own interest, and that of his country, should make him satisfied with a pocket book.

C H A P. XIII.

Continuation of the same Subject; and of the Principles upon which Banks ought to borrow Abroad, and give credit at Home.

IN every question relative to this subject, we must return to principles. This is the only sure method of avoiding error. The intelligent reader, therefore, must excuse short repetitions, and consider them as a sacrifice he is making to those of slower capacities, to whom they are useful.

The principle of banking upon mortgage, is to lend and give credit to those who have property, and a desire to melt it down. This is calculated for

the benefit of trade, and for an encouragement to industry. If such banks, therefore, borrow, it must be done consistently with the principles upon which their banking is founded. If the borrowing should tend to destroy those advantages which their lending had procured, then the operation is contrary to principles, and abusive. So much for recapitulation.

While trade flourishes and brings in a balance, banks never have occasion to borrow; it is then they lend and give credit. This, I believe, we may take for granted.

When the country where the bank is established begins to owe a balance to other nations, the bank, as we have seen in the last chapter, is obliged to pay it in coin or in bills. We have there shown, that in such cases it is inconsistent with their principles and interest, to withhold lending and giving credit, so far as is necessary for keeping up the fund of circulation to that standard which alienation and ready money demands require.

To refuse credit, and at the same time to borrow *at home*, must then, at first sight, appear to be doubly inconsistent. But in order to set this point in the clearest light I am capable, I shall reason upon a supposition analogous to the situation of the Scotch banks, and by that means avoid abstraction as much as I can.

Let me then suppose that Scotland, during the last years of the war ended in 1763, and ever since (I write in 1764) from the unavoidable distresses of the times, was obliged, 1. to import considerable

quantities of grain in some bad years; 2. to refund the English loans of money settled there in former times; 3. to furnish some of the inhabitants with funds, which they thought fit to place in England; 4. to pay the amount of additional taxes imposed during the war; while, at the same time, several of the ordinary resources were withdrawn; such as, 1. a great part of the industrious inhabitants who went to supply the fleets and armies; 2. the absence of the ordinary contingent of troops; and 3. the cutting off several beneficial articles of commerce. Let me suppose, I say, that from a combination of these losses incurred, and advantages suspended, Scotland has lost annually, for eight years past, two hundred thousand pounds. I am no competent judge of the exactness of this estimate, it is of no consequence to the argument; but I think I am far beyond the true computation.

On the other hand, let me suppose, that the sum of currency in paper, sufficient (with the little coin there was) to circulate the whole of the alienations in Scotland, (that is to say, the whole domestic circulation, supposing no balance to be owing to England or other countries) to be one million sterling. I am persuaded I am here below the true estimate, but no matter.

Is it not evident, from this supposition, and from the principles we have been deducing, that unless the banks of Scotland had alienated annually in favor of England, a fund for paying the interest of two hundred thousand pounds capital, and either brought down the coin, or given bills on London

for the sum of that capital every year; that the million of Scots currency would have been diminished in proportion to the deficiency; and would not the consequence of that be, *cæteris paribus*, to bring the currency below the demand for it; and, consequently, to hurt trade, and alienation?

Now supposing the banks, instead of providing, in England, a fund equal to this grand balance, (as I have said they should do) to remain in consternation and inactivity, giving the whole of their attention to the providing coin and bills to supply the demand of exchangers, whose business it is to send out this annual balance; what will the consequence be?

I answer, that if the banks, in such a case, do not follow the plan I have proposed, the consequence will be, that two hundred thousand pounds of their paper will be, the first year, taken out of the domestic circulation of Scotland; will be carried to the bank, and coin demanded for it. If the coin is found in the bank, it is well; it goes away, and leaves the paper circulation of Scotland at 800,000 *l*. This void must occasion applications to the bank for credits to supply it. Is it not then the interest of the bank to supply it? We have said in the former chapters that it is. But now let us suppose it objected, that if banks should issue notes at such a time, their cash having been exhausted, they would be obliged to stop altogether, upon a return of those notes issued upon additional credits.

To this I repeat again, because of the importance of the subject, that notes issued to support the

demand of circulation never can return upon the bank, so as to form a demand for coin; and if they do return, it must be in order to extinguish the securities granted by those who have credit in bank (I except always that regular demand for coin, at all times necessary for circulating the paper for domestic uses) and if those notes return of themselves, without being called in, this phenomenon would be a proof that circulation is diminishing of itself: but supposing such a case to happen, it is plain that such return can produce no call for coin; because when the notes return it is not for coin, but for acquitting an obligation or mortgage, as has been often repeated.

Notes are paid in, I say, because circulation has thrown them out. Now if circulation has thrown them out as superfluous, it never can have occasion for coin in their stead; because coin answers the same purpose.

But then it is urged that they do not return, because circulation has thrown them out, but because coin is wanted; be it so. Then we must say, that circulation is not diminished, as we at first supposed; but that the return of another year's balance, makes a new demand for coin necessary.

Now I ask, how the withholding this 200,000 *l.* from circulation, after the first year's drain, can prevent the balance from returning? There are by the supposition still 800,000 *l.* of notes in the country; will not exchangers get hold of two hundred thousand out of *this* fund, as well as out of the million? For he who owes, *must pay*, that is, *must*

circulate. It is only the circulation of the industrious, of the rich, in short *buying*, that is to say, *voluntary circulation*, which is stopped for want of currency: *paying*, that is, *involuntary circulation*, never can be stopped; debtors *must* find money, as long as there is any in the country, were they to give an acre for a shilling, or a house for half a crown. Now those who owe this foreign balance are debtors; consequently, they must draw 200,000 *l.* out of circulation, the second year as the first, whether the standard million be filled up or not. The withholding, therefore, the credits demanded upon the first diminution, has not the least effect in preventing the demand for coin the year following: it only distresses the country, raising exchange, and the interest of money, by rendering money scarce; and what is the most absurd of all, it deprives the bank of 10,000 *l.* a year interest, at 5 *per cent.* upon 200,000 *l.* which it may issue anew.

Suppose again, that a second year's demand for a balance of 200,000 *l.* comes upon the bank: if the coin is out, as we may suppose that after such a drain it will not be in great plenty, expedients must be fallen upon. In such a case, if the bank does not at once fairly borrow at London (without any obligation to repay the capital) a sum of 200,000 *l.* and pay for it a regular interest, according to the rate of money, with an obligation to pay, as government does, half-yearly, on the change of London, it will be involved in expedients which will create a monstrous circulation of coin in the bank, perhaps double of the sum required, and all those

operations will land in the end (as to the bank) in paying the interest of this sum out of the mass of its securities or stock. If the bank should borrow this 200,000 £. in London, in the manner we have said, the circulating fund of coin will be no wise diminished; there will be no call extraordinary, no rising of exchange; the bank will have *this* in its hands; and if it rises, it is the bank, not the exchangers who will profit by it.

But let us suppose that instead of this, it should have recourse to temporary credits upon which the capital is constantly demandable, or to other expedients still less effectual for answering the call which is to come upon it for the second year's balance: what will be the consequence? To this I answer, that those merchants, or others who owe the balance, will apply to exchangers for bills, for which they must pay a high exchange: these bills will be bought from the exchangers with notes, (taken out of circulation) and will reduce this to 600,000. £. the exchangers will carry these to the bank and demand coin. If the bank should make use of an optional clause, to pay in six months, with interest at 5 *per cent.* the exchangers will obtain six months credit at London, and in consequence of that, their bills will be honored and paid. This credit costs them money, which is added to the exchange: the bank, at the end of six months, pays in coin, which in the interval it must provide from London. It pays also six months interest upon the paper formerly presented by the exchanger: add to the account, that bringing down the coin must cost the bank at least 12 shillings *per* hundred pounds,

and as much more to the exchanger who receives it in order to send it back again; and after all these intricate operations which have cost so much trouble, ill blood, stagnation and diminution of circulation, expense in exchange to the debtors of the balance, stress of credit upon exchangers for procuring so large advances with commission, &c. expense to the bank in providing coin, expense to the exchangers in returning it; after all, I say, the operation lands in this: that 200,000 £. of notes, taken out of the circulation of Scotland, returns to the bank who must have provided, at last, either coin, or credit at London for them. This return of 200,000 £. of notes does not diminish the mass of those obligations lodged in the bank, in virtue of which they are creditors upon the proprietors of Scotland: consequently, the bank has constituted itself debtor to England for those funds which have been *torn from it* in the manner above described: consequently, had it, by a permanent loan, constituted itself voluntarily debtor to England from the beginning, it would have paid no more, nay less than it has been obliged to pay; circulation would not have lost 200,000 £. and the bank would have had the interest of 200,000 £. added to its former securities, which would compensate (*pro tanto* at least) the expense of borrowing that sum in England upon a permanent fund. Instead of which it compensates the interest of a temporary loan, with the same sum of interest taken out of the securities in its hand. If, therefore, from an ill grounded fear of issuing as much paper as is demanded, it

shall withhold it, there results to itself a loss equal to the interest of what it refuses to lend; that is to say, there is a *lucrum cessans* to the bank of the interest of this 200,000 *l.* at 5 *per cent.* or at 10,000 *l.* a year; which other banking companies will fill up, and thereby extend their circulation.

If, besides refusing credits, it should call in any part of those already given, it still diminishes circulation: but then by that operation it diminishes the mass of its securities, and so diminishes the sum of the interest annually paid to itself. If it goes farther and borrows money at home, such loans will be made in its own paper, which will diminish farther the mass of circulation; and if it goes on recalling the credits and mortgages, it will soon draw every bit of its paper out of circulation, and remain creditor upon Scotland only for the balance it has paid to England on her account. Such are the consequences, when a bank which lends upon private security withholds credit, at a time when a national balance is due, and when applications are made to it for new credits, to fill up the void of circulation occasioned by the operations used for the payment of the balance: such also are the additional fatal consequences, when to this it adds so inconsistent an operation as that of borrowing in its own notes, or recalling the credits it had formerly given.

By the first step it only appears passive in allowing natural causes to destroy both the bank and the nation, as I think has been proved.

By the second, it is active in destroying both itself and the country.

What benefit can ever a bank which lends upon private security reap by borrowing within the country of which it is the centre of circulation; nay, what benefit can it ever reap from withholding its notes from those who can give good security for them!

Every penny it borrows, or calls in, circumscribes its own profits, while it distresses the country. After all the combinations I have been able to make, I can discover but one motive which (through a false light) may engage a bank to this step, to wit, jealousy of other banks.

As this speculation is designed to illustrate the principles of circulation, from circumstances relative to the present state of the Scotch banks, let us call things by their names.

The banks of Edinburgh resemble, more than any other in Scotland, a national bank. Let me then suppose all that can be supposed, viz. that the abundance of their paper has given occasion to lesser banks to pick up from *them* every shilling of coin which these lesser banks have ever had; and that these have had the address also to throw the whole load of the balance upon those of Edinburgh: let this be supposed, more cannot, and let us allow farther, that this must ever continue to be the case. In these circumstances, what motive can the banks of Edinburgh have for withholding credit from those who are able to give security? What motive can they have for borrowing up their own notes?

Indeed I can account for this plan of management in no other way than by supposing, that, disgusted

at the long continuance of an unfavorable balance of trade against their country, and vexed to find the whole load of it thrown upon themselves, they have taken the resolution to abandon the trade, and are taking this method of recalling their paper altogether.

Let me suppose the contrary, and I shall not be able to discover how it is possible that such a conduct can turn to their own advantage, throwing out all consideration of the public good, which for some time, no doubt, must be greatly hurt by it.

As long as any considerable quantity of their notes is in circulation, and that the principal exchangers reside at Edinburgh, they never can avoid the loss of paying the balance; and by refusing to fill up the void occasioned by the return of their notes, they deliver the whole profit of replacing them to the other banks, their rivals.

Let me next estimate the losses they sustain by furnishing coin to the other banks, and for the payment of the balance; and then compare these with what they lose by not keeping circulation full.

I shall suppose the balance to cost them two hundred thousand pounds *per annum*; and I shall suppose that all the lesser banks put together have occasion for two hundred thousand pounds in their chests; Is not this computation far above what can possibly be supposed?

Will it be allowed that if the banks of Edinburgh willingly submit to pay the whole of the bills of exchange demanded on London, for this

balance, they will have at least the preference in replacing that sum to circulation?

If they pay the balance of 200,000 *l.* a like sum of their notes must come in to them, without diminishing one shilling of the interest paid upon the securities lodged in their banks; consequently, the only loss incurred is the difference between the interest they receive, which is *5 per cent.* and what it would cost them to borrow a like sum in London, and to remit the interest of that sum four times a year.

Now the value of a *4 per cent.* is at present about 96; so in paying 20 *s.* *per* quarter on the change of London, the Edinburgh banks may have at London a capital of 96 *l.* Let me call it only 94 *l.* supposing their credit not to be quite so good as that of the funds. I think it as good to the full; and I am sure it is so. At this rate, the 200,000 *l.* will cost them an interest of 8510 *l.* instead of the 10,000 *l.* which they will receive for the like sum added to their former securities. Now I suppose that they have recourse to exchangers to remit this interest, and that they pay for it *5 per cent.* (which is an absurd supposition, as they will have the exchange entirely in their own hands) and that they give all the bills for the 200,000 *l.* at par, (also a ridiculous supposition) the *5 per cent.* on 8510 *l.* is 425 *l.* 10 *s.* which added to the interest, makes 8935 *l.* 10 *s.* so that after all, they will have upon the whole transaction 1064 *l.* 10 *s.* of profit.

Next, as to the loss incurred in furnishing 200,000 *l.* to the other banks: If this coin be demanded of

them by those banks, the demanders must, for this purpose, draw 200,000 *l.* of Edinburgh notes out of the circulation of Scotland; which I have supposed may be replaced in some little time by the Edinburgh-banks; consequently, if this sum also be borrowed at London, there will result upon this operation, as well as upon the last, a profit of 1064 *l.* 10 *s.* But then indeed they must be at the expense of bringing down the coin borrowed, at 12 *s.* per 100 *l.* because those banks will insist upon having coin, and refuse bills on London. This will cost 1200 *l.* from which deduct the profit of 1064 *l.* 10 *s.* gained by the first operation, remains of loss upon this last transaction 135 *l.* 10 *s.* no great sum *. Does it not follow from this reasoning, that the banks of Edinburgh will have the whole business of exchange in their own hands? What exchanger then will enter into competition with them? The domestic transactions with the merchants and manufacturers of Scotland will be their only business. Farther,

* We are not to suppose that this yearly balance of 200,000 *l.* is always to continue. We have seen how it has been occasioned by a course of unfavorable circumstances, which have run Scotland in debt; we have seen how the banks may interpose their credit, in order to assist the country in paying it; and we shall see, before we dismiss this subject, how they will be enabled to repay it, and set Scotland free, by a return of a favorable balance upon their commerce. Let it then be remembered, that all those contractions in England are properly the debts of Scotland, not of the banks. Scotland, therefore, and not the banks, must be at all the expense thereby incurred. These points shall be explained as we go along.

What

What prevents the banks of Edinburgh to have offices in every trading town in Scotland, where their notes may be regularly paid on presentation, and new credits given as circulation demands them?

The only objection I can find to this plan of banking, is the difficulty of finding credit at London to borrow such large sums.

This, I think, may also be removed, from the plain principles of credit. If the banks of Edinburgh enter into a fair coalition, as they ought to do, I think, in order to form really a national bank, totally independent of that of England; may they not open a subscription at London, and establish a regular fund of their own, as well as any other company, such as the India, or South Sea? By borrowing in the beginning at a small advance of interest above the funds, and paying as regularly as government does, will not all those who make a trade of buying and selling stock fill their loan, rather than invest it in any other carrying a less interest? And if the whole land securities, and stocks of those banks at Edinburgh be pledged for this loan, will it not stand on as good a bottom as any fund upon earth? And can it be doubted but parliament will encourage such a scheme, upon laying the affairs of Scotland and the banks properly before them?

By this means they will really become a national bank: because England seems at present to be to Scotland, what all the rest of the world is to England. Now, the bank of England has no such fund of credit on the continent, that I know; and were

that country to fall into as great distress, by a heavy balance, as Scotland has been, she would find as many difficulties in extricating herself by domestic borrowings, bank - circulation, &c. as Scotland has found by the like domestic expedients. She would then be obliged, for her relief, to have recourse to a fund opened in Holland, Spain, or Portugal, like to what I propose for Scotland with respect to England.

I have heard it alledged, that the whole distress occasioned to the banks and circulation of Scotland, was occasioned by a false step taken by them, some years ago; at the time when the lowness of the English funds, and a prospect of a peace, occasioned great remittances, from Scotland, and a withdrawing of the large capital of, perhaps, 500,000 *l.* owing in Scotland to English persons of property.

At that time, it is said, the banks imprudently launched out in giving extensive credits to the debtors of those capitals, and to those who wanted to remit the funds they had secured in the hands of people who could not pay them; that this threw a load of paper into circulation, which it could not suspend, being far beyond the extent of it; and that, consequently, the paper came back upon the bank, produced a run for coin, which soon exhausted, in a manner, all that was in Scotland; and that the country has never been able to recover itself since.

This representation is plausible, and has an air of being founded on principles: in order therefore

to serve as a further illustration of the subject of circulation, I shall point out where the fallacy lies.

It is said the banks did wrong in giving those credits. I say, they did right; but they did wrong in not providing against the consequences.

Had they refused the credits, the English, and other creditors would have fallen directly upon their debtors, and obliged them to pay, by a sale of their lands, at an under-value; which, I think, would have been an infinite loss to Scotland. In this way the price would have been paid in bank-paper, taken out of circulation; for we have said, that *he who owes must pay*, be the consequence what it will. This paper would have come upon the banks at any rate; and being a balance due to strangers, must have been paid by the banks. The banks therefore did right to supply the credits demanded; but then they might have foreseen that the whole load of paying those debts would fall upon them; which they being in no capacity to do, should have immediately pledged in England, the interest of the credits they had given out, after supplying the want of Scots circulation, and when the notes came in, they would have had at London the capital of that interest prepared for paying them off, and no inconvenience would have been found.

The only thing then the banks seem to have misjudged, was the granting those credits too hastily, and to people who perhaps would not have invested their funds in England, had it not been from their facility in giving credit.

Banks therefore should well examine the state of circulation, and of the grand balance, in difficult times, before they give credit. If circulation be full they may, with justice, suspect that the credits are demanded with a view of expediency, to transport property out of the country, which otherwise might have remained. But in favor of circulation, or in favor of what might be exacted by foreign creditors, banks never can misjudge in giving credit; because, if they should refuse to do it, they in the first place incur a loss themselves; and in the second place, they diminish the fund of circulation, and thereby hurt the country. Now when, at such times, a credit is asked or given, that demand is a warning to banks to prepare; and by preparing they are ready, and no loss is incurred.

Upon the whole, it is an unspeakable advantage to a nation to have her foreign debts paid by her bank, rather than to remain exposed to the demands of private foreign creditors; because, when a bank pays them, I suppose her to do it upon a loan in the funding way, where the capital is not demandable by the creditor; whereas when private citizens are debtors to strangers, the capitals are always demandable; and when a call comes suddenly and unexpectedly, the country is distressed. What would become of Great Britain, if all her debts to strangers were demandable at any time? It is the individuals who owe, in effect, all that is due to foreigners; because they pay the interest: but they pay this interest to the public; and the public appears as the debtor to all strangers, who have no

right to exact the capital, although the state may set itself free whenever it is convenient.

I have said above, that after all the combinations I had been able to form, I could discover but one motive to induce a bank to with-hold credit at a time when it was demanded for the use of domestic circulation, viz. jealousy of other banks. What my combinations could not then discover, my inquiries have since unfolded.

It is said, that the banks finding so great a propensity in the inhabitants of Scotland to consume foreign manufactures and produce, fell upon this expediency of calling in the old, and of refusing new credits, in order to cut off such branches of hurtful luxury and expense.

Could the execution of such a plan prove a remedy against the vice complained of, this circumstance alone would more clearly demonstrate the utility of banks upon mortgage, than all I have been able to say in favor of that establishment.

Let us therefore have recourse to our principles, in order to discover what influence a bank can have in this particular.

We have distinguished between *necessary* and *voluntary* circulation: the *necessary* has the *payment of debts*; the *voluntary* has buying for its object.

We have said that he who owes is either a bankrupt, or *must pay*, as long as there is a shilling in the country.

But he who buys, or inclines to buy, *must have money*, or he can buy nothing; for if he buys on credit, he then falls immediately into the former category, and *must pay*.

By with-holding money for the uses of circulation, which banks may do for some time, buying *may* be stopped; paying *never can*.

Now if the mass of money in circulation is brought so low, that the *higher* classes of the people, who consume foreign productions, cannot find money to buy with, what are we to suppose will be the case with manufacturers, and with the merchants who buy up *their* work? Could this operation of the bank affect the *higher classes* only, by curbing their anti-patriot expenses, without affecting the *lower classes*, by curbing their industry, I should think it an admirable discovery. If it even could be made to affect those merchants and shop-keepers only, who deal in foreign commodities, so as to discourage them from carrying on that business, there would result from it a notable advantage.

But alas! wherein are they hurt? They trade in such commodities, not because they are bad citizens, but because they are freemen, and seek profit wherever the laws permit.

Perhaps, they find more difficulty than other people in forcing coin from the bank, as matters stand: perhaps, they are loaded with opprobrious appellations for extorting such payments from the bank: perhaps, their credits with the bank are recalled. But must not those who buy from them, pay them? And must not the bank give coin, or bills, for the notes they receive, when presented for payment? Why, therefore, throw difficulties in the way? All the world knows, that no human engine can prevent a merchant from laying all the expenses of his trade upon the consumer. Correct the taste of the

consumers, and you may stop the trade: no other restraint will be of any consequence. But in order to correct the taste of consumers, do not deprive them absolutely of money; because the money the landlord receives, comes from the farmer, for the price of his grain, &c. Would it be a good scheme for preventing soldiers from drinking brandy, to cut off their subsistence-money? Give a drunkard but a penny a day, it will go for liquor; and those who are fond of foreign clothing, will take the price of it from their bellies, to put it on their backs.

If this scheme of the banks' with-holding credit, proves, at present, any check to those dealers in English goods, it will be but for a very short time. They have been taken by surprise; and, perhaps, thrown into inconveniences from an unexpected change of bank-management; but as long as there is a demand for such commodities, there will be a supply; and when people owe, they *must pay*. No operation of a bank can prevent this.

I must, therefore, according to principles, disapprove of this public-spirited attempt in the banks of Edinburgh; because, if it should succeed, it will have the effect of ruining all the trade and industry of Scotland, in order to prevent the sale of English goods: and if it does not succeed, which is more than probable, from the assiduity of other banks in supplying credit, it will have the effect of ruining the banks of Edinburgh themselves.

This step, of calling in the bank-credits, and opening a subscription for a loan, is represented by others in a light somewhat different.

By these it is alledged, that in the beginning of the year 1762, when the Edinburgh banks withdrew $\frac{1}{4}$ of all their cash accompts, and opened a subscription for borrowing in their own notes, at an interest of 4, and even 5 *per cent.* the demand for money, to send to England, was not occasioned by the great balance owing by Scotland, but to the high premium money then bore at London; because, says the author of a letter to J... F Esq; published at that time,

“ This demand arises from a profit on carrying money to London, *as a commodity*, and not as a balance of trade.”

It is not easy to comprehend how there could be much profit in carrying money to London at 3 *per cent.* loss by exchange, from Scotland, where it bore 5 *per cent.* interest.

It is true, that at certain times, there were considerable profits made upon stock-jobbing; by which some won, and others were ruined. I agree, that the country was greatly hurt by the folly of those who played away their own property, and by the roguery of others, who borrowed that of their neighbours, with an intention of gaming at their risk. But is this a vice which any bank can correct, while it has a note in circulation?

If, therefore, it was a sentiment of patriotism which moved the banks to such a plan of conduct, I say they thereby did more hurt to industry, by contracting circulation, than good to Scotland, by attempting a thing which was beyond their power to accomplish.

If they were moved to it by a principle of self-preservation, I say they lost their aim, by cutting off their own profits, which would have done much more than indemnify them for the loss of borrowing at London, at the time when money there was hardest to be got: for whatever exorbitant expense of exchange gamesters may incur, to procure ready money to play with, the rate of the stocks at that time never was so low, as to afford a profit upon money remitted at 3 *per cent.* loss by exchange, while that money was bearing 5 *per cent.* interest at home.

The lowest rate of stocks was in January 1762. Towards the end of that month 3 *per cents.* fell to $63 \frac{1}{4}$: this makes the value of money to be about 4*l.* 12*s.* *per cent.* In these funds, certainly, no body could invest, with profit, money sent from Scotland.

After the new subscription had been open for some time, scrip indeed, or 4 *per cent.* fell in this month so low as $74 \frac{1}{2}$, that is, money rose to 5.4 *per cent.* whereas had scrip stood at the proportion of the 3 *per cents.* it should have been worth about 84: but at the beginning of a war with Spain, when the minds of men were depressed, and filled with apprehensions, and when a new loan was perhaps expected at a higher interest than ever government had given, was it natural for people to be fond of investing in a 4 *per cent.* stock, which was to fall to 3 *per cent.* in a few years?

Besides, let us examine the profit to be made by investing even in that fund. 100*l.* produced

in Scotland 5 *l.* interest, that capital remitted to London at 3 *per cent.* exchange, was reduced to 97 *l.*: now if 74.5 *l.* produced 4 *l.* the produce of 97 *l.* would be about 5 *l.* 4 *s.* Would any man for the sake of 1/5 *per cent.* advance of interest on money remitted, ever think of sending large sums to London to be invested in a falling stock?

I allow that, upon opening subscriptions, great profit was sometimes made by those who contracted with government, and who received the subscriptions at prime cost. But this profit depended entirely upon the subsequent rise of the subscription, when the original subscribers brought it first to market; as also from the small sums they had advanced: this operation was over before the end of January 1762. The smallness of the sum advanced, upon which the profit was made, and the ministerial interest which was necessary to obtain a share in those subscriptions, rendered it extremely difficult for people in Scotland to share in the profit by remitting large sums in the proper point of time.

Farther, might not the banks, in the short period during which such large profits were made, had they had the exchange in their hands, have raised it so high as to frustrate the attempts of our Scots gamesters? If it be said, that exchangers would have disappointed them, by giving it lower; I answer in the negative: because to that set of men exchange will rise, of itself, in proportion to the value of money *in the place to which people incline to remit it.* And could money at any time bring in, at London, 20 *per cent.* interest, exchange upon that place would rise universally in proportion.

The only motive, not already mentioned, for sending money to London at this time, under so great disadvantages, was the prospect of a great rise upon the stocks, in the event of a peace. Upon which I observe, that the value of that probability was included in the then price of stock; and had the probability of a peace, in January 1762, been great, stocks would have risen in proportion: him, therefore, who vested his money in stock, by remitting from Scotland at that time, upon an expectation peculiar to himself, I consider as a gamester, and as an ignorant gamester too; because he was giving odds upon an equal bett. This every man does, who, without any prospect of a profit peculiar to himself, pays a high exchange to bring money to a market, where he buys at the same price with those who pay no exchange at all.

From these considerations, I am led to differ from the ingenious author of the letter to J. F. Esq; who says, "That in the present case" (the circumstances operating in January 1762,) "the demand" (for money to remit to London) "is unlimited, and no provision the banks can make can be of use; on the contrary, could they find a treasure, suppose of a million, it would only serve to increase it; because this demand arises on a profit on carrying money to London as a commodity, and not as the balance of trade."

C H A P. XIV.

Of optional Clauses contained in Bank Notes.

AS we are examining the principles upon which banks of circulation upon mortgage, which issue notes payable in coin, are established in Scotland, it is proper to take notice of every circumstance which may arise from the extensive combination of the interests of trade and circulation, especially when we find such circumstances influencing the political welfare of society.

An optional clause in a bank note is added to prevent a sudden run upon banks, at a time when more coin may be demanded of them than they are in a capacity to pay.

Banks not regulated by statute, are private conventions, in which the parties may include what conditions they think fit. Banks, therefore, may insert in their notes, the conditions they judge most for their own advantage. Thus, they may either promise peremptory payment in coin upon demand, or they may put in an alternative, that in case they do not chuse to pay in coin, they may pay in bills, or in transfer of their stock, or in other circulating paper not their own; or they may stipulate a certain space of time after the demand, with interest during the delay. All these alternatives are inserted, in order to avoid the inconvenience of running short of coin, and of being obliged to stop payment altogether.

We have said above, that the profits of banks

consist in their enjoying the same interest for the notes they lend, as if the loan had been made in gold or silver. This is a very great object, no doubt; but the policy of nations has established it, and therefore we shall suppose it to be an uncontroverted principle.

In which ever way, therefore, an optional clause is inserted, it should be such as to cut off all profit from the bank, upon all paper presented for payment, from the time of presentation; and every artifice used to suspend the liquidation of the paper, to the advantage of the bank, and prejudice of the bearer, should be considered as unfair dealing in the bank, and prohibited by law.

When the optional clause has no tendency to procure advantage to the bank, in prejudice of the holder of the paper (except so far as the holder is thereby deprived of the use of coin, which on certain occasions cannot be supplied by the paper) it becomes the duty of a statesman to examine how far it is expedient to suffer such stipulations to be inserted, in a money which is calculated to carry on the mercantile interest of the nation.

Banks, we have said, are the servants of the public, and they are well paid for their services. Although the notes issued by them are not commonly made a legal tender in payment; yet the consequence of a well established bank, is to render them so essential to circulation, that what is not a legal obligation becomes one, *in fact*, from the force of custom.

Let us therefore examine the advantages which result to banks from this optional clause, and the

loss which results to a nation from their use of it, and then compare the advantages with the inconveniences, in order to determine whether or not it is expedient to permit such obstructions in the circulation of paper.

The advantage which banks reap is confined to that of gaining time, at the expense of paying interest. The interest paid by them is an awkward operation. They receive interest for the note? because they have in their possession the original security given for the notes when they were first issued; and they begin to refund this interest to the holder of the note from the time they make use of the optional clause. Could the banks, therefore, borrow coin in a moment, and pay the same interest for the coin which they pay to the holder of the note, they would certainly never make use of this optional clause. But this coin is not to be found in a moment; and the banks, to save themselves the trouble, and the expense of augmenting the fund of coin, or of procuring a fund out of another country; upon which they might draw for the payment of that national balance, which, by becoming banks, they tacitly engage to pay for the nation, render the credit of individuals precarious with strangers, and raise a general distrust of the whole society which they ought to serve. Here then is a very great loss resulting to a nation from the establishment of banks. Were no bank established, no merchant would contract a debt to strangers, without foreseeing the ready means of discharging it with the coin circulating in the country. In proportion

as this coin came to diminish, so would foreign contractions of debt diminish also. Thus *credit*, at least, might be kept up, although trade might be circumscribed, and manufactures be discouraged. Now when, in order to advance trade and encourage manufactures, a statesman lends his hand towards the melting down of solid property, and countenances banks so far as to leave that operation to them, with the emolument of receiving interest for all their paper; and when, in order to facilitate the circulation of this paper, the very inhabitants concur in throwing all their specie into a bank, is it reasonable to indulge banks so far as to allow them to add an optional clause, which disappoints the whole scheme, which stops trade, ruins manufactures, raises the interest of money, and renders the operation of melting down property quite ineffectual for the purposes which it was intended to answer? Farther,

The loss a bank may be at, in providing coin, is susceptible of estimation, let it be brought from ever so distant a country; because we know that the quantity to be provided, never can exceed the value of the *grand balance*. But who can estimate the loss a nation sustains, when an interruption is put to carrying on trade and manufactures? When the industrious classes of inhabitants are forced to be idle for a short time, the consequences are hardly to be repaired: they starve, they desert; the spirit of industry is extinguished; in short, all goes to ruin.

Besides, when banks do not lay down a well digested plan for paying regularly, and without

complaining, this *grand balance* due to strangers, they are forced to have recourse to expedients for preserving their credit, more burdensome, perhaps, than what is required of them; and not near so effectual for removing the inconveniences complained of.

The expedients they fall upon to obtain credit, coin, and bills, are so various, and so complicated, that they alone are able to explain them.

Sometimes we see them entering into contracts with private merchants and exchangers, (*living among themselves!*) who engage for a certain premium to furnish coin as it is demanded. The consequence of this, is, to expose the bank to a new demand for coin, from the very contractors, in order to fulfil their engagements; an abuse we have taken notice of above, in speaking of the *bank circulation* of England.

Let us suppose that these undertakers for coin do really set out by doing *in part* what banks should *effectually* do themselves, that is, by bringing from another nation, the coin which they are to supply. What is the consequence? The banks pay the undertaker for this coin in their own notes. Did they only engage to pay a certain interest for the coin so provided, then the end would be accomplished, with the additional expense to them of paying the undertaker for his expense, trouble, and profit. But if they, instead of paying interest for the coin so furnished, shall issue their notes for the full value of it, such notes can never enter into domestic circulation, so as to be suspended in it as it were;
because

because it is not domestic circulation which has demanded them : they must then return upon the bank, either from the very hand who received them, or at least, after a short circulation; and thus draw out again the whole coin furnished by the undertaker. This produces a prodigious circulation of coin, and induces people to imagine that either the *grand balance* is inexhaustible, or that the premium upon money at London is very high, or that people can contrive a fictitious balance, as a means of profiting upon coin, after the balance has been actually paid*.

This method of providing coin is absolutely delusive, and opens a door to infinite abuse. Those who furnish the coin to the bank, are either in the combination against the bank, and draw it out as fast as they throw it in; or they are not in the combination: if they are in the combination, they profit by it; if they are not, they are hurt by their contract, and other exchangers draw the advantage; but the bank is equally a loser in both cases.

Let me suppose that they are not in the combination, and that they honestly procure the coin at their own expense. If they are paid in notes for the coin they furnish, we must suppose that the coin they have procured, is not in consequence of

* The directors of the bank of England have had recourse to a like expedient with as little success. They used, during the war, to buy up, with their paper, the coin brought in by privateers; and after they had been at this trouble, the notes they had given for it returned upon them, and drew it out again.

a loan, but of a *credit* given them in the place from which the coin is sent: for I never can suppose that any merchant will borrow coin upon a *loan*, and lie out of so large a capital while he has bank notes in his hand to pay up what he has received. If he has procured this coin upon *credit*, will not this, when it comes to be replaced, augment the grand balance against the nation in favor of the country or city which granted that credit? And must not that balance be paid by exchangers out of the coin received by the bank? If, therefore, we suppose that the undertaker does not draw out the very coin he had just delivered into the bank, will not exchangers do it for him; will not they be ready with notes, as soon as the coin is lodged in the bank, to draw it out, and send it off, in order to furnish the undertaker with bills to fill up his credit, for the coin he had received from people residing in the place to which the exchangers have sent coin, to be ready to answer their draughts? Does this differ in the least from what is called drawing and redrawing, which is sufficient to ruin any man, and must not a like practice ruin a bank, by raising exchange to a monstrous height?

This being the case, the shortest and the best method of preventing such abuses, is to oblige banks to pay upon demand, in coin or bills, at the option of the holder of the note. This will force them into the method of providing them; to wit, fairly borrowing money from nations to whom we owe, and paying a regular interest for it, without an obligation to refund the capital, until the grand balance

shall take a favorable turn; in which case, the banks will regorge with coin drawn from strangers, and these strangers will then find as great an interest in being repaid, as the bank found in borrowing from *them*, while the balance was in *their* favor.

We have said, that a statesman should oblige all public banks to pay regularly upon demand, in coin or bills, at the option of the holder of the note. But then he must facilitate to them the means which he has in his power, of providing themselves with the coin, or bills demanded.

For that purpose, he must, first, provide them with a mint, for how, without a mint, can a bank convert into coin the metals it may provide from other countries? Next, he must put that mint under such regulations as to cut off all profit from money-jobbers, who will be ready to draw coin out of the bank the moment they find the least advantage in tampering with it. In order to prevent this abuse, a reasonable rate of coinage should be imposed, according to the principles laid down in the third book; and when banks have occasion to pay a balance out of the nation's coin, a drawback for part of the coinage should be given them. This drawback will support the value of the coin, and the loss of the remainder will engage them to export bullion preferably to coin, when it is to be found: and if no drawback were given, the coinage would be totally lost to the bank.

When this deduction is given, the coin must be melted down, and stamped in bars at the mint; both in order to prevent frauds in the drawbacks,

and to disappoint strangers who receive it at the price of bullion, from gaining the price of coinage when they return it back. And in the last place, all light coin should be banished out of circulation, and made to pass by weight for bullion, at the current price of the market. All banks should both receive and deliver coin by weight, when the sums are so considerable as to require full bags of coin to pay them. It is not here necessary to repeat what has been said upon this subject at so much length in another place.

The method of facilitating to banks the means of providing bills for the payment of foreign balances, is, secondly, to assist them in procuring loans beyond the district of their own circulation. If government shall be satisfied that the intention of demanding such loans, is to enable the bank to interpose their credit in favor of the trade and industry of those who circulate their paper, and who have no way of paying such balances, but with their solid property; in that case, government will, undoubtedly, assist the bank in obtaining loans for so national a purpose, by declaring the security upon which they desire the loan to be good, and by becoming answerable to the public for the solidity of it.

C H A P. XV.

*Of subaltern Banks of Circulation, and of their
Competition with one another.*

WE have hitherto treated of the principles which influence national banks of circulation, we now come to examine some peculiarities attending banks of a subaltern nature, which for the most part trust to the national bank for all supplies of coin; and when this resource fails them, they are thereby involved in difficulties which are not easily got the better of. Besides this inconvenience, to which all subaltern banks are subject, they are frequently exposed to competition with one another.

A national bank enjoys such great advantages from the stability of its credit, and the regularity of its operations, that it is not easy for any other private company to establish themselves upon the same solid system.

When any banking company is established, which draws its support from a national bank, the facility of carrying on the business by so great an assistance, naturally engages other companies to imitate their example. From thence arises a competition. All such banks begin to consider the circulation of their own district as their undoubted property, and they look with an eye of jealousy upon every note which does not carry their own mark.

The great point of their ambition is to gain credit with the national bank; and could they obtain

of that company to receive their notes, or to give them credit for their draughts, in cases of necessity, they would be at their ease; because the national bank would then be at the whole expense of providing coin and bills, and they would have nothing to think of, but to extend the sphere of their own circulation.

With respect to all these subaltern societies, the national bank will no doubt steer an equal course. I suppose every one to be settled upon good security; without which they do not deserve the name of banks.

In proportion to their stocks, and according to the state of the national balance, they may, as well as any private person, on many occasions, draw considerable supplies of coin from the national bank, without lying under any obligation to it; because when exchange is low, they can realize any part of their stock into coin, out of the national bank, at very little loss, excepting the interest of it: for interest must always be reckoned upon every guinea which lies in their chest.

Did these banks consider one another in a proper light, they must see in an instant that the solidity of every one is equally good; because I now suppose them all standing upon the principles of private, not mercantile credit, as above explained.

What benefit then can they possibly reap from their mutual jealousies, from gathering up each other's notes, and coming with a run upon one another from time to time? The consequences of this will be, to oblige themselves and others to preserve

for *domestic circulation* a larger quantity of coin than is necessary, and thereby to diminish their own profit: to take up their attention in providing against their own reciprocal attacks, and thereby neglect the providing a supply for that demand which is indispensable; to wit, the payment of the grand balance due to other nations; at which time the resource of the national bank will certainly fail them. The managers of every one of them will pretend that it is they who are saddled with this burden; but the nature of the thing speaks for itself.

Wherever this grand balance is transacted, the exchangers residing in the place will have recourse to the bank there established; and if there be more than one, that which pays with the greatest readiness will have the best credit, the most notes in circulation, and the largest profits upon the whole. If any one is found slow, or difficult in paying its paper, exchangers will be the more punctual in making their demand for payment, and they will even be averse to receiving such notes from their correspondents.

Every man who has occasion for credit from a bank, will apply to that whose notes are the most esteemed. In short, there will be profit, in the main, to the bank which pays the best, although I allow that at particular times there may be some additional inconveniences, unless a regular plan be laid down on the principles above deduced.

This however is a vague reasoning; because the matter of fact is not known. All that can be said with certainty, is, that while no public regulation is

made with regard to banking, every one will carry on the trade according to his views of profit; and private animosities between different companies, will only tend to distress the nation and themselves, as experience has, I believe, discovered.

If, as matters stand, a very great inconvenience results to Scotland from the want of a communication of paper credit with England, and if thereby an exchange of 4 and even 5 *per cent.* has been paid for bills upon London, because all the coin of the country is locked up in banks; I ask what would be the consequence, if banks had their will in banishing from the circulation of their own district, every other notes but their own? In that case, we might, in a short time, find an exchange of 4 and 5 *per cent.* between Fife and Lothian, between Glasgow and Ayr, and so of the rest. What would then become of manufacturers, who could not dispose of their work at the distance of a few miles, without having recourse to exchangers for their payment? If such an abuse were once allowed to creep in, there would be no other remedy but to destroy banks altogether, and throw the little coin there is into circulation.

On the other hand, when banks are in a good understanding, when they are established on solid principles, when their paper is issued on proper security, the public is safe; and in every little district, under the wings of their own bank, there will arise a set of exchangers, who will give credit to merchants and manufacturers, and who will have recourse to their own bank for the coin or bills

necessary for their occasions. This will naturally divide the payment of the grand balance among them, in a due proportion to their circulation.

I shall now consider the principles which may direct a statesman to settle banking upon mortgage on a proper footing, to serve every national purpose.

C H A P. XVI.

*Of some Regulations proper to be made with regard
to national Banks.*

FROM what has been said, we may conclude, that were a national bank upon mortgage, established on a plan calculated to answer the purposes of the most extensive domestic circulation, it might be regulated in the following manner.

1mo, Let a large stock of property, of one species or other, be provided, in order to gain the confidence of the public, and let it be pledged for the payment of all the notes.

2do, Let all solid property intended to be melted down into paper money, be first constituted in such a manner as to be easily sold, and in the mean time secured to the company, for their advance, preferably to every other person, and let it be of a revenue fully sufficient to acquit the interest for ever.

3tio, The capitals due to the bank must not be demandable by the bank, as long as the interest is regularly paid.

4to, Every one who constitutes his property according to the regulations, must be entitled to a proportional credit from them.

5to, All bank securities must be pledged in the hands of government for the interest of whatever money the bank may borrow with their consent, beyond the district of their own circulation.

6to, Government must support the bank in proportion to the extent of their funds.

7to, Let bank notes be payable to bearer, either in coin, or in inland bills to the value, or in a transfer of a corresponding interest at — *per cent.* all in the option of the holders.

Were such regulations established, the borrowing from banks would become very easy; any man who is master of his property, though incumbered with debts, might put it into bank regulation, might raise upon it what sum he thought fit, with which all his debts might be paid off; he might even give credit upon it to those who otherwise are not in a situation to obtain it: for which credit given, a profit in the rate of interest might be allowed to him. Were a plan concerted consistently with the principles which have suggested this general sketch, all borrowing and lending of money would soon centre in the bank. Securities would be easy, and expense greatly avoided.

A national bank, when rightly constituted, may however be safely indulged in more extensive methods of circulating their paper than upon land security. The bank of England is allowed by charter to issue notes for discounting bills of exchange,

it may trade in gold and silver, may advance money to government upon the security of taxes imposed and levied within the year. But it is in general debarred commerce, and every precarious object of traffic. The reason is plain. The paper it issues becomes the property of the nation, and may form in a short time the greatest part of the currency of it. In such a case, were the bank exposed to losses by trade, or insolvency of debtors for great sums, the whole credit of the nation might be ruined, and all the lower classes of the manufacturing inhabitants undone, before such a blow could be repaired.

Under proper regulations, bank paper might be made a legal tender in every payment: in which case it is hardly possible that any considerable demand for coin should ever be made upon them, except for the payment of the *grand balance*.

This national bank may have different offices, in different cities within the kingdom, and these will make subaltern banks both useless and unprofitable. It might even be stipulated, that a certain proportion of bank stock, in the name or for the behoof of any city, should entitle that city to a proportional part of the administration within their own district. As these are only speculations, not plans, I need not set about removing objections, which are constantly many and well grounded, whenever any new establishment or innovation is proposed. All I aim at is to set this principle in a clear light, to wit, that it is the interest of every trading state to have a sufficient quantity of paper,

well secured, to circulate through it, so as to facilitate payments every where, and to cut off inland exchanges, which are a great clog upon trade, and are attended with the risk of receiving the paper of people whose credit is but doubtful.

For this purpose, I have proposed that inland bills should be demandable from the bank at par, as well as specie.

It would be an admirable improvement upon this scheme, to make a like regulation as to foreign bills. However, this speculation is reserved for another opportunity. All I shall say, at present, upon that head, is, that as we have seen how the whole national balance must be paid by banks (who circulate paper payable in coin on demand, and who consequently must, on some occasions, draw the metals from abroad for that purpose, in order to fill up the void made by exchangers, who send them out) and it would, I think, be shortning, in some measure, that operation, and be a means, at the same time, of indemnifying the bank in this respect, to regulate matters so, that all foreign exchanges might be transacted there at fixed rates, according to the place where the exchange is to be made, without erecting any monopoly for that purpose in favor of the bank, or depriving any one of the liberty to deal in exchange, who can afford it at more reasonable terms than the bank; but of this more when we come to the doctrine of exchange.

C H A P. XVII.

*When and in what case Banks should be obliged
to keep open Books.*

IF no national bank be established under proper regulations, and entire liberty allowed to every one to take up the trade who can issue his notes, I think it would be against all principles of good policy not to oblige such banks to keep open books, to be inspected regularly by some authority or other; in order to see upon what security that paper stands, which is the instrument of commerce, a part of every man's private property, and which, if any part of it should once fail, either through the knavery, misconduct, or misfortune, of a particular company, would cast a general discredit upon all paper, and be a means of bringing on those calamities which we have so often mentioned.

I know the ordinary objection against this, is, the inconvenience of throwing open the secrets and mysteries of trade. As to the mysteries of trade, this point shall be examined in another place. But here, I say, there is no question of trade in which any risk is implied: and if any one can suppose, that, at any time, the affairs of a bank are in so ticklish a situation as not to bear inspection, that very supposition shows how necessary it is not to permit such a bank to continue this circulation. The only inspection, in which the public is interested,

is to know the quantity of notes issued, and the extent and nature of the securities pledged for them. They have no business to examine the state of their cash, or of particular people's credit. They may be without a shilling in their coffers, and still their paper be as good as if they had a million. Such an inspection, as I propose, would rather confirm than shake their credit, but it would be a means of preventing them from launching out into speculations in matters of commerce, which is not their district; and from gaming with national property.

If it be said, that this inspection would lay open the affairs of many private men, debtors to the bank, I answer in the negative; because no man's credit is hurt by his having a cash account, and no inspection is requisite, as to the state of that account with the bank. The credit may be either quite full, or quite exhausted; this particular interests no body but the parties themselves; but it is essential to know upon what security the credit has been given; because every man who has a note of such a bank in his possession, has a very good title to be informed concerning the security on which it stands.

It is not sufficient to say, that the holder of the note, if he doubts of the security, may demand payment. It is not here the interest of any individual, but that of the public which is attended to: and if, according to the principles of common reason, it be just, that a creditor should have it in his power to watch over the abilities of his debtor, so as to secure his payment; certainly it is equally just, that the public (which I consider here as the

creditor) should be made certain, that what is circulating with as great facility as the King's coin, contains a real value in it. Would it be a good answer from any man who held a piece of false money in his hand, for the use of circulation, to screen himself, by alledging that if it be false, no body need to take it. It is the right of every man to detect false coin; but it is the right of government *only* to detect false paper: because law only can authorize such an inquisition. Does not the charter of the bank of England establish this right in government? If the bank be confined to certain particular branches of solid trade, where little risk is incurred, might not government examine, when necessary, whether these regulations have been observed, and how can this be done without such an inspection as is here recommended?

C H A P. XVIII.

Is it the Interest of Banks to grant Credits and Cash Accompts to Exchangers and others, who make a Trade of sending Coin out of the Country?

THE answer to this question is very short.

From the principles we have deduced, it is plain, that it is both the office and interest of banks to give credit to all who can give good security for it.

The cause of doubt upon this question, arises only from certain inconveniences which have been of late

experienced in Scotland; but which never would have been felt, had banks attended to their true interest, in providing funds to answer the demands of those who are either obliged, or who find an interest in paying off what the nation owes upon the grand balance to foreigners.

To set this matter in a clear light, let me suppose that, some time ago, the banks had at once withdrawn all the credits granted to exchangers; and opened a subscription for a loan of money, equal to what they might estimate the sum borrowed by that set of men within the country, for the sake of carrying on their business.

According to principles, these two operations should go hand in hand: the recalling the credits would, no doubt, have greatly distressed exchangers; but as long as they could find money to borrow from private hands, that inconvenience would have been lessened. Besides, I apprehend that the late custom among exchangers, of borrowing at 4 *per cent.* owes its existence to the difficulty they felt in obtaining extensive credits from the bank; and if this be the case, then there has been a *lucrum cessans* to the bank of 5 *per cent.* upon the amount of all these borrowings; because exchangers, I apprehend, would prefer a credit from the bank at 5 *per cent.* to a loan at 4 *per cent.* payable on demand, according to the occasions of those who keep their money with them.

The most effectual method, therefore, to hurt exchangers, would have been to have recalled all their credits, and offered to borrow, upon the same terms, what was lent to them. The

The execution of such a plan would, I think, have been, 1. diametrically opposite to the interest of the banks; 2. would have occasioned such a run upon exchangers, as to throw them into great distress; and 3. would have ended in the total ruin of the trade of Scotland.

That such a plan is diametrically opposite to all principles of banking, I suppose, is by this time sufficiently understood.

That it would have occasioned a run upon exchangers, is pretty certain: because however good their credit might be, it must be acknowledged to be inferior to that of the banks; and therefore nobody would prefer them for debtors, to the bank, upon the same terms.

The third consequence is as evident, upon a short reflection, as the other two. The run upon the exchangers would have obliged them to make a call upon all the merchants and dealers in Scotland, to whom they gave credit: for which purpose, and for which alone, they find an interest in borrowing at so high an interest as 4 per cent.

The call, then, made by the exchangers upon their debtors, is neither more or less than a call upon the money employed in the trade of Scotland.

Now we have said, that whoever owes *must pay*. The merchants of Scotland owe to exchangers; the latter are pressed by their creditors, and *must pay* with what they have, which consists in money only: when that is exhausted, they must shut up shop. They again call upon the merchants, who *must pay* with that they have. This consists in goods,

and in the manufactures of Scotland; and these they *must* sell at any price. There may not be time sufficient to export with advantage. To whom then must they sell? To people within the country, who have no money to buy with; because credit is withheld by that body which only can give it. I conclude with the old saying of the law,

Unum quodque eodem modo solvitur quo colligatum est.

The best method to establish credit in an industrious nation, is a bank properly regulated: and the best methods to ruin it effectually, when established, are the inconsistent operations of such a bank.

C H A P. XIX.

Application of the Principles above deduced, towards forming the Policy of Circulation.

FROM the principles above deduced, there arise three principal objects of attention.

The first, the circulation of paper for domestic uses.

The second, the method of providing coin for that purpose.

The third, the method of paying foreign balances.

These three objects are absolutely different in their nature, and they are influenced by different principles. The consequence of blending them together, is to render the subject, which is abundantly intricate

in its own nature, still more dark and perplexed. What is to follow has no relation to any plan proposed for execution; it is only intended as a farther illustration of the general principles which influence this branch of my subject.

1^{mo}, As to the circulation of paper for domestic use.

It has been said, that the great utility of banks of circulation upon mortgage, was to facilitate the melting down of solid property; in order to enable every one who has property, to circulate *the capital* of it for the advancement of industry.

For this purpose he comes to a bank, pledges the capital he wants to melt down, and receives for his obligation, bearing interest, paper money which bears none.

This paper money, I suppose to be as solidly secured as the principles of private credit can make it. I suppose the bank to be established by authority, according to the regulations already mentioned, and the notes made a legal tender in every payment of *domestic debts*; by which I understand *debts* payable within the country.

From these data, I say, that the regular method by which the bank should acquit the obligation in the notes, is by restoring the security granted at issuing the notes, if they be returned by the debtor in it; or by a transfer of a sum of interest equivalent to the notes, if they are presented by any other. All farther obligations laid upon banks to pay in coin, or inland bills, is only an

equivalent expected from them in lieu of their great profits*.

When paper issued for domestic circulation returns to a bank, were it not for the profits on their trade, I see no reason why a bank should pay in any other species of property than what it received; and if, by the interest they receive for their notes, they are abundantly indemnified for all the difference between paying in coin and in transfer, I think the public would be a gainer to dispense with that obligation in lieu of an abatement of interest; which would be an advantage to commerce, not to be counterbalanced by the other.

Farther, the business of providing coin is totally different from that of supporting domestic circulation: it is founded on different principles: it

* It must here be observed, that in every country where there is a national coin established, it is absolutely necessary to connect with it the denomination of the paper; in order to affix a determinate value to these denominations. This may easily be done without implying, as at present, an obligation on the bank to realize into coin every bit of paper in circulation.

The *interest*, therefore, of the credits given by the bank, may be demandable from the debtors in coin; and the transfers of interest made by the bank, to those who bring in notes for payment, may also be demandable in coin from the bank.

These payments will bear a small proportion to the paper in circulation, as interest must be very low; and coming at fixed terms of payment, provision will easily be made for them.

This regulation will support the coin of the country, and as the *interest* of all the paper becomes demandable in coin, the intrinsic value of the *interest* will effectually support the value of the *capital*.

requires men of a particular genius to conduct it: the difficulties to be met with are not constant; and therefore cannot form a regular branch of bank administration.

2do, The method of providing coin for domestic circulation is the business of mints, not of banks.

I have, in the third book, treated very fully of the doctrine of coin and of mints. I have shown the difference between money, which is *the scale for reckoning value*, and coin, which is *certain denominations of money, realized in a proportional weight of the precious metals*. I have shown how necessary a thing it was to impose the price of coinage upon the metals manufactured into coin: and I have said, that it was inconsistent with all principles, to alledge that the metals, when coined, should thereby acquire no additional value.

The expense, therefore, of providing the metals should be thrown upon those who want coin; and the mint should be obliged to convert gold and silver into coin, upon the demander's paying the coinage.

This coin loaded with the price of coinage, never will be sent abroad to pay a foreign balance; never will be locked up in banks, which will have little occasion for it. It will, therefore, remain in circulation, and serve those purposes for which the inhabitants think fit to employ it.

This coin, I say, never will be exported, as long as any uncoined metals can be found in the country: and if upon a national distress it is thought fit to facilitate the exportation of it, the state may (as we observed above) appoint the mint to receive it

back, in order to melt it down into ingots, stamped with the mark of sterling, repaying to the bearer — *per cent.* of the coinage.

3tio, The trade of paying off foreign balances will then become a particular branch of business: of which we shall treat more at large, when we come to examine the principles of exchange.

All that is necessary to be said in this place, is to recal the principle we have mentioned above, viz. that when a nation cannot pay in her metals, manufactures, and natural produce, what she owes to strangers, she must pay in her solid property; that is, she must mortgage the revenue of such property for a capital *borrowed out of the country*, which capital she must employ for the payment of her foreign debts.

This operation then should be performed by a regular and systematic plan.

C H A P. XX.

Objections to this Doctrine.

THAT bank notes can never be received as specie, but from a persuasion that they may be exchanged for it on demand.

To this I answer, that it is sufficient they be received as value; and that they answer every purpose in carrying on alienation. The use of *money* is to keep the reckoning between parties, who are

solvendo; the use of specie or coin is to avoid the inconvenience of giving credit to persons who perhaps may not be so.

When merchants make delivery in accompt, they then give credit to their customers: when they sell for bank bills, they give credit to the bank: when they are paid in coin, they give credit to no body; because they receive the real value in the coin. Where then is the difference between receiving the real value, and receiving an obligation for it, concerning the validity of which every one in the country is perfectly satisfied?

Is there a merchant, in any country in the world, who will sell one farthing upon a hundred pounds cheaper to a person who pays in coin, than to another who pays in good paper; unless the extrinsic circumstances of the country should, at that time, give an advanced price to the *metal* of which the coin is made.

Money, we have said, ought to be invariable in its value: coin never can be so, because it is both *money* and *merchandize*: money, with respect to the denomination it carries by law; merchandize, with respect to the metal it is made of.

But it is urged, that if I have coin I may pay any where within the commercial world, at the expense of transportation, and insurance. I grant this to be true.

But I answer, that the principal use of coin, is, not to send it out of the country; but to keep accompts clear among inhabitants within the country. If there be a variation in the value of coin, according to

circumstances, that variation must affect the inhabitants in their transactions. No one can gain upon this coin, without supposing a relative loss to some other, whether they perceive it or not. Must not this disturb all reckoning? Must it not disturb prices? Since at different times, I may be paying the same denominations of coin for the same commodity; and yet be paying, really, more value at one time than at another. Is not then the most invariable money the best calculated for the interest of trade, and prosperity of manufactures? Whence arise complaints against paper money, and regrets for want of coin? They issue from those who both wish to profit of the rising value of the metals contained in the coin, and who endeavour to persuade the public, that its interest, and not their own, is their object.

What a trifle is a foreign balance, let it be ever so great, compared with the whole alienations of a country! Is it reasonable to disturb the harmony of all domestic dealings, in order to furnish an opportunity to a few clear-sighted people, who can, upon some occasions, profit of the fluctuating value of the substance of which the coin is composed, to the prejudice of the ignorant? If the country owes a balance to other nations, let it be paid: nothing so just; nothing so essential to the interest of the country which is the debtor. If the precious metals are the most proper vehicles, as I may say, for conveying this value, let them be procured and sent off; but never let us say, that because *some* of our money *may* be made of that metal, that all our money should be made of it; in order that those who transact the balance

may have an opportunity of sending our metals away with greater ease, and thereby of depriving us of the means of carrying on alienations among ourselves. Let every one that has coin sent it away: nothing can be more just; nothing more consistent with principles: but let him send it away as a *manufacture*; carrying in its bosom the price of making it, which he has paid, and for which his foreign creditors will make him no allowance.

Exchangers run to the coin of the nation, for paying, with the least expense to themselves, the balance they are about to transact. When that resource is cut off by the imposition of coinage, the nation will preserve at least her darling specie; and then exchangers will be obliged, by the best of all compulsions, their own interest, to think of other expedients; bullion, manufactures, and natural produce. And when all these come to fail, a regular plan must be laid down, and authorized by government, for obtaining credit in other countries, by mortgaging the revenue of the solid property of the kingdom; according to the principles we shall discover when we come to treat of exchange.

C H A P. XXI.

How by a return of a favorable Balance the Bank may be enabled to pay off the Debts due to Foreigners, and thus deliver the Nation from that Burden.

WE have said, that the banks in contracting debts, and mortgaging the property of Scotland to strangers, for the payment of a grand balance, really acted as the guardians of the public, by interposing their credit, and by constituting themselves as debtors for the whole; taking for their relief, proportional securities upon the effects of individuals.

We have also pointed out how, by this operation, the mass of bank-securities comes to be greatly augmented.

Before the payment of any balance for the behoof of Scotland, the securities in the hands of the bank can only be equal to the notes in domestic circulation, and accumulated profits thereon. Let this be called (A). In proportion as these notes come back upon the bank, in a demand for bills to pay balances, in the same proportion is there a sum of securities added to the former mass (granted upon new credits given for filling up the void thereby occasioned to circulation) which quantity I shall call (B).

(A) then represents the securities equivalent to the notes in circulation.

(B) represents the securities equivalent to the debts contracted by the bank in favor of strangers.

Now let us suppose trade to become favorable; or that the interest of the money, which the natives had sent abroad, to invest in foreign countries, begins to flow back: what will be the effect of this?

I say, that this balance will be paid to Scotland, either in coin, or in the metals, or in produce, or in manufactures, or in bills.

In every case, it must be supposed to be beyond the consumption of Scotland; otherwise it will not be a balance in their favor. Whatever part of it, therefore, proves to be beyond the consumption of Scotland, will be turned into money. This money must either consist in the metals, or in foreign bills. If it consist in the metals, it will, if coined, fill up, *pro tanto*, a part of circulation; this will make a proportional part of bank paper return upon the bank, and extinguish a proportional part of their securities; which we have called (A). But then there will be more coin in circulation than formerly; consequently, more coin will enter into payments made to the bank than formerly. But we must suppose, that before this favorable turn of commerce, there was coin enough both in the bank and in the country for the uses of domestic circulation; consequently, the bank will send off this superfluity of coin, and with it they will refund a part of the debt they formerly contracted.

Through all this chain of reasoning, we must always suppose the money in circulation to be a deter-

minate sum; otherwise the superadding this foreign balance in coin will not occasion, as we have said, a return of a proportional part of the bank paper.

In the next place, let us suppose this favorable balance to consist in foreign bills, upon London, Amsterdam, &c. These will be discounted by the bank, and notes issued for them. The bills will be sent off by the bank, in order still to extinguish a part of what is owing to foreigners. These notes, again, being superfluous to circulation, which we suppose to be full, will return upon the bank and still diminish the mass of (A).

By these operations we see how (A) will be constantly diminishing; but then in the same proportion we see how the mass of foreign debts will also be diminishing: consequently (B), which was engaged for them, will be returning to be the free property of the bank; and as we suppose no variation upon the sum in circulation, we may consider this as a sort of conversion of (B) into (A), and when all (B) shall be thus converted into (A), then the debt formerly contracted by the bank, in favor of Scotland, will be totally paid off by the same method (only inverting the operations) by which it was contracted.

C H A P. XXII.

Of Banks of Circulation established on mercantile Credit.

I HAVE examined, with all the care I am capable of, the nature of banks calculated for the melting

down of solid property, and converting it into paper for the use of circulation.

The nature of such banks is but little known in countries where they have not been established, and a distinct account of them may suggest hints, which in time may prove useful.

People who do not employ their thoughts on the theory of trade and credit, are apt to overlook objects of real utility; and those who do, have seldom the opportunity of being informed of the customs of different nations. Were my experience greater, or had I more opportunities to dive into the recesses of this great object, the work I now present to the public would better deserve its attention.

I now proceed to a deduction of the principles upon which are founded those banks which are principally calculated for the use of commerce; and as the ground-work of my inquiry, I shall trace some of the principal operations of the bank of England.

The establishment of this great company was formed about the year 1694. Government at that time having great occasion for money, a set of men was found who lent to it about 1,200,000 *l.* sterling, at 8 *per cent.* for the exclusive privilege of banking for 13 years; with this additional clause, that 4000 *l.* sterling, *per annum*, should be given them to defray the expense of the undertaking. This sum of 1,200,000 *l.* sterling, was the original bank stock. It has been since increased to 11,000,000 *l.* by farther loans to government, for the prolongation

of their privileges; as has been taken notice of in the 16th chapter of the second part.

This stock, as in banks of circulation upon mortgage, is only to be considered as a subsidiary security to the public for the notes they issue: were it the principal and only security for their paper, this bank would then be founded on the principle of public, not of mercantile credit; under which last denomination we are going to point out in what the nature of it differs from those we have already explained.

It is a rule with the bank of England to issue no notes upon mortgage, permanent loan, or personal security. The principal branches of their business may be comprehended under four articles, viz. 1. The circulation of the trade of London: 2. The exchequer business of Great Britain: 3. The paying the interest of all the funds transferable at the bank: 4. Their trade in gold and silver. I shall now shortly explain the nature of these four great operations; and first as to the circulation of the trade of London.

When we speak of the circulation of trade we understand the circulation of money paid on the account of trade.

The great occupation of the London merchants engages them to simplify their business as much as possible. For this, they commit to brokers every operation which requires no peculiar talents or ingenuity in the merchant himself; and, for a like reason, they commit to the bank and private bankers the care of their cash.

A Scots merchant begins by drawing money from

the bank, for which he pays interest: a London merchant begins by putting money into the bank, for which he draws no interest at all.

A London merchant, therefore, can give no order upon the bank, unless at a time when he has money lodged in it.

If he has occasion for money at any time, he sends to the bank the bills he has, before they become due, and the bank discounts them at certain rates, according to their nature.

If it be a foreign bill, the bank in discounting it, retains of the sum, at the rate of 4 *per cent. per annum*, for the time the bill has to run; but if the bill be at a longer day than 60 days, they will not discount it. So in this case, the merchant must keep his bill until it is within 60 days of the term of payment.

The reason for this is evident: the security upon which such bills stand, is purely mercantile. The nearer, therefore, the payment is, the less risk the bank incurs from the failure of those who are bound in it.

The intention of this operation of discounting bills, is plainly to employ the cash in the bank in a way to draw an interest for it; but as merchants allow their money to lie dead for as short a time as they possibly can, the bank must have quick returns for what they advance upon discount, in order to be constantly ready to answer all demands. This is no loss to the bank, and a prodigious advantage to trade, as I shall briefly explain.

The bank is constantly receiving cash from every person who keeps their cash with it. This occasions a constant fluctuation of payments, which of course

must leave at all times a considerable sum of other people's money in the bank; because it never is in advance to any one.

By long practice in the trade, this sum of money becomes determinate: let us call it the *average-money* in the hands of the bank. It is then with this average-money alone, that the bank can discount bills. Now if the trade of London does afford bills to be discounted at different dates within 60 days, sufficient to absorb the whole average-money of the bank, appropriated for discounting; this branch of business would not go forward with the celerity required for the trade of London, did the bank indulge merchants so far as to discount at a longer day.

From this we learn another reason why the bank of England discounts no bill which has more than 60 days to run. The first, mentioned already, is for the greater security of payment; and the second, which we now discover, is in order to be able to discount more bills than otherwise they could do, did they discount at a longer day.

As I am here upon the subject of discounting bills of exchange by the bank of England, an operation it has in common with all the private bankers in the capital, I must answer a question I have frequently heard proposed.

How it happens, that in a city of so great trade as London, it is possible that people should be found even among merchants, who allow their money to remain in the hands of bankers without interest; when in Scotland, a place of so little trade, interest may always be got for money for the shortest time?

The

The answer to this question is to be derived from the very principles of trade itself.

The money which merchants have either in the hands of the bank, or of bankers, though very considerable at all times, is in perpetual fluctuation: it cannot then be lent to any but a banker, who would consent to pay interest for the sums in hand. But no such banker can be found, nor ever will be found, until all the bankers in London consent to such a regulation. The reason is plain. One principal use the bankers make of the average-money in their hands, is the discounting of bills. Who then could pay interest for money, and discount, in competition with others of the same trade, who have it for nothing?

But suppose the bank, and all the bankers in town, should come to the resolution of giving interest for the money in their hands, what would be the consequence?

I answer, that upon such an alteration, discount would rise above the present rates, to the great prejudice of the trade of the nation; and bankers would lend the money in their hands upon a more precarious security for the sake of a higher interest.

All the landed men who reside in London, and many other wealthy people, not concerned in trade, constantly keep their money either in the bank, or in some banker's hand, without interest: this enables bankers in general to discount foreign bills at 4 *per cent.* as has been said, even when the rate of interest is rather above that standard.

This is, as it were, a contribution from the rich and idle, in favor of the nation.

Let, therefore, gentlemen who have much idle money, think of any other expedient than that of obtaining interest for it, from those who discount bills in London. Not one of them can afford to do it, and thrive by his business; and the hurt which would result to trade in general, will constantly be a sufficient bar against a general resolution for that purpose.

What has been said, will, I hope, prove satisfactory as to the resolution of the question above proposed, so far as regards London. It remains to be answered, how those who supply the place of bankers in Scotland, and even the banks themselves, can afford to pay interest for any sum put into their hands for a short time.

I answer, that as to the Scotch exchangers, as we have called them, the profits on their trade admit of borrowing money at interest, which that of the bank of England and private bankers cannot do. If these last can gain 4 or 5 *per cent.* by discounting of bills, it is all they can honestly expect: every other employment of the money in their hands is precarious, either as to the security or promptitude of calling it in, to answer the demands which are made upon them.

As to the Scotch banks, we have seen how directly contrary to all principles it is, to borrow money in Scotland. How it diminishes the profits upon their own trade, and hurts the circulation of the country; but although it diminishes their

profit, it carries along with it no positive loss to them, as would be the case with a London banker, who would pay interest for all the money in his hands, when he never can draw any back, except for that part which we have called the average.

Every London banker is obliged to have a certain sum of cash constantly in his chest, the interest of which would be all lost, did he pay for it: whereas the exchangers in Scotland never have a shilling by them; and when any demand is made upon them, they draw the money from the banks, in consequence of their credit by cash accompts.

Besides foreign bills, which the bank of England discounts at 4 *per cent.* they also discount inland bills, and notes of hand between merchants in London, at 5 *per cent.*

The inland bills to be discounted at the bank must all be payable in London. The bank calls in no money from any distant quarter of the kingdom.

As the discounting of notes of hand between London merchants might operate the same effect, as if the bank should advance them money upon personal security, in case the notes were drawn for obtaining credit, in place of paying money really due between the merchants, in the course of business, the clerks of the bank keep a watchful eye over this branch of management, and, by examining the reciprocal draughts of merchants between themselves, they easily acquire a knowlegde of the state of their affairs, and are thereby enabled to judge how far it is expedient to launch out in discounting either the notes or bills wherein they are concerned.

I shall not pretend to assign a reason why, in the price of discount, the bank makes a difference of 1 *per cent.* between foreign and inland bills of exchange. It may either be an indulgence and encouragement to foreign trade; or it may be upon the consideration of the better security of foreign bills, which commonly pass through several indorsements before they are offered to be discounted at the bank.

I come next to the circulation between the bank and the exchequer.

The bank of England is to the exchequer, what a private person's banker is to him. It receives the cash of the exchequer, and answers its demands.

Cash comes to the exchequer from the amount of taxes. The two great branches of which are the excise and customs. To explain this operation with the more distinctness, I shall take the example of the excise.

The excise is computed to bring in annually from London, and the fifty-two collections over all England, nett into the exchequer, above four and a half millions sterling.

The fifty-two collectors send the amount of their collections to London eight times a year, *almost entirely in bills.* As the same may be said of the remittances of all the other taxes, we may from this circumstance observe by the way, that London alone must constantly owe to the country of England a sum equal to all the bills drawn upon it; that is to say, to all the taxes which the country pays: a circumstance not to be overlooked, from

which many things may be learned, as will be taken notice of in the proper place.

The bills sent by the fifty-two collectors, are drawn payable to the commissioners of excise; they indorse them to the receiver general; he carries them to the bank as they fall due, and gets a receipt for the amount; this receipt he carries to the exchequer, who charge it in their account with the bank, and deliver tallies to the receiver general for the amount of his payments; these tallies he delivers to the commissioners of excise, who enter them in their book of tallies. This operation is performed once every week, and serves as a discharge from the commissioners to the receiver general.

The bank, again, keeps an account with the exchequer, which is settled once every day, by two clerks, who go from the bank to the exchequer for that purpose. When coin is wanted by the exchequer, for payments where bank-notes will not answer, the coin is furnished by the bank; when paper will serve the purpose, paper is issued.

Besides this operation in the receipt of taxes, the bank advances to government, that is to the exchequer, the amount of the land or other taxes imposed, which are to be levied within the year. This we see is a loan upon *government security for a short term*, quite consistent with the principles upon which the bank is established. The large sums the bank is constantly receiving of public money, and the great assistance it obtains from thence in carrying on the other branches of their trade, enable it at present to make advances of money to government

at 3 *per cent.* It observes the same rule with respect to the great companies of the East Indies, and South Sea, for the same reason : but no advances are made to private people ; and in discounting of bills and notes of hand, the regulations above mentioned are adhered to.

Thus the whole amount of taxes is poured into the bank , in the manner we have been describing.

The bank also keeps the transfer books of all the funds negotiated at the bank ; and out of the public money in its hand, it pays the interest of those debts, for which government allows to the bank a sum proportionate to the expense of that branch of management.

When the bank, as a company, lends to government upon a permanent fund , the capital whereof is not demandable, this operation is foreign to their business as a bank, and is conducted by the company, as an article of management of their private property.

Let us now examine by what channels their notes enter into circulation , and the security upon which they stand.

When issued in the discount of bills, they stand upon the principles of mercantile credit, and depend upon the goodness of the bills discounted. When issued upon the faith of taxes to be paid within the year , they stand upon the security of that payment, which is of a very complex nature, as any one may perceive. As long as the inhabitants of England consume exciseable goods, the excise will be paid : as long as trade goes on , customs will

be paid : and as long as government subsists, the collateral security of the state will serve to make up all deficiencies in the amount of taxes. No security, therefore, can be better than the notes of the bank of England, while government subsists. The losses that great company meet with from bad debts, I am informed, are very inconsiderable.

The greatest risk the bank runs, is in discounting bad bills; but by the extent of their business in this branch; and by circulating the cash of all the merchants who keep accounts with them, they acquire so perfect a knowledge of the state of their affairs, that it rarely happens that any one can fail for very considerable sums, without the bank's having a previous notice of it. A sudden loss may no doubt happen, without a possibility of being foreseen; but the matter of fact proving that their losses upon bad bills are inconsiderable, we may thence infer, that there is but little mystery to the bank, with regard to the credit of London merchants.

I come now to the last branch of their management, to wit, their trade in gold and silver.

For the circulation of bank notes, coin is necessary. We have seen, in treating of the Scotch banks, how coin is brought in: to wit, in consequence of all the payments made to the bank, in which there must be a proportion of coin equal to what is found in common circulation. What is not paid in coin, comes in, in their own notes, which are thereby taken out of the circle; and

consequently make place for a subsequent supply, which issues in the manner we have described.

In times of peace, and a favorable balance of trade, the bank suffers little by the obligation it is under to pay in coin, except so far as the great confusion of the present currency affords an occasion to money-jobbers to melt down the new guineas. The extent of this traffic I am no judge of, and the bank no doubt has an interest in preventing it as far as the laws have provided a remedy against it.

But when large payments are to be made abroad, the distress of the bank is no doubt very great.

In Scotland, the banks, upon such occasions, are totally drained of coin. They have no market for the metals; because they have no mint to manufacture them into coin. It is different with respect to the bank of England; their distress proceeds from another cause.

The exportation of the heavy guineas in time of war, and of a wrong balance upon the trade of England, leaves circulation provided with a light currency, in which the bank is obliged to pay their notes; and the intrinsic value of the gold in which they pay, regulates the price of the metals they are obliged to buy at market. If they provide them themselves from abroad, they must pay the price of them in bills of exchange. But then the lightness of the currency at home, sinks the value of the pound sterling, as it raises the value of the ounce of gold and silver. So the only considerable loss they incur, is in providing the metals, which must ever be considerable, so long as the old guineas remain in circulation.

The loss upon coining silver is still greater than upon gold; because, besides the loss incurred by reason of the lightness of the gold, the metals in the silver and gold coin of Great Britain, are not proportional to the value they bear in the London market, where they have been bought, as has been sufficiently explained already in another place *.

It is with great diffidence that I propose an expedient to a company so knowing in the arts and science of trade, for preventing, in a great measure, this loss in providing the metals for the use of circulation. The bank is directed by long experience, and by knowledge of many facts and circumstances hid from me; and which, therefore, I cannot combine into a theory founded chiefly upon reason.

The expedient I propose has been pointed out in the preceding parts of this inquiry, and I only recapitulate it briefly in this place, to recal it to mind while we are on the subject of the bank of England.

First, then, while the coin is of unequal weight, the value of the currency never can be permanently the same. Did the bank seriously set about forming a plan for the reformation of the coin, I have no doubt but government, as well as the voice of the nation, would go along with it in forwarding the execution of so noble a design.

The second step I would recommend, is that government should enable the bank to establish a fund in Holland, Antwerp, Hamburgh, and perhaps at Cadiz and Lisbon, for borrowing (though at a

* See Book III. Chap. 21. Quest. 7.

high interest) sums of money equal to what may be due by England to the continent upon certain emergencies.

I cannot pretend to lay down any plan for this operation; but I proceed upon this principle: that if on like occasions the British government can find credit to borrow so large sums for the uses of war, at a very moderate interest, surely the bank of England may imitate her example for the uses of trade; and had she a credit abroad, upon which she could draw, I think it must follow, that the coin of the nation might be kept at home.

I have been an eye witness to large sums in new English guineas thrown into the melting pots of Dutch mints, for the small profit of less than 1 *per cent.* gained by coining them into ducats. A small duty imposed upon coinage in the English mint, would prevent this practice abroad; and then British coin would come safe back again, upon every return of a favorable balance on their trade. At present it comes home in bullion, which the bank must buy dear; the state must coin at a considerable expense; and the bank after all must give it to circulation at the mint price, which is many *per cent.* below prime cost, as matters have stood for several years.

From this review of the constitution of the bank of England, and of the principles upon which it is founded, we may discover how impossible it is, that banks upon mortgage and private credit, can ever receive any considerable assistance from it; and how groundless all insinuations concerning its jealousy of such companies must be.

A more natural object of its jealousy is that of the London bankers, who carry on a trade similar to its own, in many respects, and who, in the course of their business, draw from it very large quantities of coin.

This, however, occasions no ill will on the part of the bank. The trade of London requires the assistance of all the bankers there, as well as of the bank. Were it otherwise, the bank, by discounting bills at a less profit, might soon oblige them to shut up shop. In this view of the matter, the drawing coin from the bank cannot be prevented.

The bankers call for no more than their business requires. Could the bank, therefore, circulate the whole trade of London, the consequence would be, to issue as much coin as at present: and the coin which issues from bankers, like to that which issues from the bank, if it be for the uses of domestic circulation, returns to the bank in proportion as it issues: and if it be for payment of a foreign balance, the bank knows well that the expense of providing for *that*, must hand upon it, in spite of every method to prevent it.

I must now explain the difference between the effects produced upon the circulation of coin; by the operations of banks established upon mortgage and private credit, and by those of the bank of England, which we have said to be established upon mercantile security.

The consequence of a bank upon mortgage, is to fill the nation with paper money, and to reduce the quantity of coin to the lowest sum possible. For

the truth of this proposition, I appeal to the experience of Scotland, and of Rome, where banks upon mortgage, and moveable pledges, are found established. From these facts, and from the principles of their constitution, which is to melt down property into money, it follows, that when the credit of such money is well established, the coin, which is the money of the world, will be employed in trading with the world, and the paper, which is the money of the society, will be employed in trading with the society.

The consequence of this, is, that when the balance of trade runs against a country where banks upon mortgage are established, the coin first goes out, and when, by borrowing, it can be brought back, the interest paid for the coin borrowed, adds an additional balance against the country, until the whole revenue of it becomes the property of other nations. From this we may conclude, that the establishment of such banks is as dangerous a weapon in the hands of an idle nation, as an extensive credit is to the family of a young spendthrift.

But let us consider the consequences of such banks to an industrious people, who preserve, upon the average of their trade, a favorable balance with other nations.

The coin, then, goes out to return, and serves as a check upon the course of exchange. I here suppose proper regulations in the mint, and an entire liberty to export coin. Permitting the exportation of coin where you have a mint, for paper to supply its place, and a favorable balance on your

trade to bring it back, is like establishing two shops for the course of exchange. If the exchanger will not serve trade at the price of transportation and insurance, the coin will do it for him.

In such a country, a bank, properly established, will find great profit upon the interest of their notes, notwithstanding of the obligation to provide, at all times, the quantity of coin necessary for circulation. All the great objects of trade will then be fulfilled; the rest must be left to the operation of political causes.

If the balance of the trade of such a country should have the effect of bringing in an addition of coin, which, because of the paper, would become unnecessary for circulation; this coin, or the value of it, will either be added to their stock in trade, or will be lent to other nations. This is the case of the Swifs: they are an industrious and a frugal people; they receive annually from their trade, and from the service of their citizens in many countries in Europe, a constant addition to their wealth, more than their trade demands, which they lend to their neighbours; by these means they increase the revenue of the society; and this increase has effects almost similar to an extension of their territory; because it is a means of increasing their population beyond the proportion of the natural produce of their lands; and the food they import from Germany and other countries, is paid with the money which arises from the interest of what they have lent abroad. All these operations are the consequences of credit and circulation.

In a country where a mercantile bank is established, the melting down of property is greatly circumscribed; and consequently coin becomes more necessary.

We have often said, that a circulating value (money) must constantly bear a proportion to alienation. Circumstances will determine what proportion of coin and what proportion of paper will be necessary for carrying it on. These circumstances, under banks of circulation upon mortgage, multiply paper so much that little coin is required.

Let us now examine how far the paper of a mercantile bank, like that of England, tends to supply the demand of circulation.

Were no bank established at London, all bills would be paid, or discounted in coin.

The bank, therefore, melts down into paper-money all the bills discounted by them, and throws it into circulation.

It also melts down into paper all the sums it advances either to government, or to the great trading companies. In this respect it acts upon the principle of banks upon mortgage.

It also melts down into paper all the interest upon the public funds discounted at the bank. All this sum of paper issues from the bank into the city of London, and proportionally supplies the circulation of that great capital.

Let us next examine how this paper can find its way into the country of England, there to supply the use of coin.

The whole consumption of London for meat,

beer, fire, and an infinity of articles of manufacture for domestic use and foreign exportation, comes from the country of England.

Did the country owe nothing to London, the sums due for those commodities would be sent into the country in the current circulation of London, which, by what we have seen, absorbs a very large quantity of paper.

But we have said above, that the whole amount of taxes, almost is remitted to London in bills: this could not be the case, were not the capital constantly indebted to the country. This circumstance confines the circulation of bank-notes chiefly to London, and some other cities, to which the inhabitants of London resort, and whither they carry in their pockets the money of the capital, viz. bank-notes. For these reasons, bank-notes can never be common in the country: and if, at any time, a scarcity of currency *there*, proves hurtful to industry, the defect cannot be remedied but by establishing banks of circulation upon mortgage in the principal towns of England.

It may be here objected that such a regulation in England, where there is already so great a bank settled on different principles, might draw along with it the following hurtful consequences, viz.

1^{mo}, By multiplying the circulation of paper it would send off the coin.

2^{do}, The taxes would be paid in this paper, which could not be received at the bank of England, and that would throw the whole nation into confusion.

To which I answer, 1. That if the coin were sent off, it would return, as has been said, while the trade of England flourishes: and 2. That this new bank-paper coming in place of the coin, would no more be sent to London than coin is sent now. The debts due by the country for taxes, would be compensated by the reciprocal debts due by London for subsistence, &c. and the compensation would go on as at present by bills: but were the case otherwise, and did a change of circumstances oblige the country to make delivery in coin to London, the holders of the country-notes would constantly, as is the case in Scotland, have recourse to the bank established in the district, for the coin wanted to be sent to London.

When I accidentally, as at present, happen to apply a principle to a particular case, whereby an innovation is implied, I constantly fear a secret rebuke from many impatient readers. I therefore beg a little indulgence upon account of my good intention, which is only to support ideas to be approved of, or rejected by those who have the capacity to form plans upon them, and power to put them in execution.

C H A P. XXIII.

Of the first Establishment of Mr. Law's Bank in France, in the Year 1716.

IN deducing the principles of credit, I have it chiefly in view, to set in a fair light, the security upon

upon which paper-money is established: and as I imagine, this important branch of my subject will still be rendered more intelligible, by an example of the abuse to which this great engine of commerce is exposed, I now propose to give my reader a short account of the famous bank of circulation first established in France, by Mr. Law; but afterwards prostituted (whether by design, or by fatality, I shall not here determine) to serve the worst of purposes; the defrauding the creditors of the state, and a multitude of private persons.

So dreadful a calamity brought upon that nation, by the abuse of paper credit, may be a warning to all states to beware of the like. The best way to guard against it, is to be apprized of the delusion of it, and to see through the springs and motives by which the Mississippi bank was conducted.

After the death of the late King of France, Louis XIV. the debts contracted by that Monarch were found to extend to 2000 millions of livres, that is, to upwards of 140 millions sterling.

It was proposed to the Duke of Orleans, regent of the kingdom, to expunge the debts by a total bankruptcy. This proposal he rejected nobly; and instead of it, established a commission (called the *Visa*) to inquire into the claims of such of the nation's creditors as were not then properly liquidated, nor secured by the appropriation of any fund for the payment of the interest.

In the course of this commission, many exorbitant frauds were discovered; by which it appeared,

that vast sums of debt had been contracted, for no adequate value paid to the King.

After many arbitrary proceedings, this commission threw the King's debts, at last, into a kind of order.

Those formerly provided for were all put at 4 *per cent.* The creditors to the amount of six hundred millions, which had not been liquidated, nor provided for, had their claims reduced, by the commission, to two hundred and fifty millions; for which they obtained notes of state, (*Billets d'état*, as they were called) bearing an interest of 4 *per cent.* also.

These operations performed, the total debts of the late King were reduced to the sum above mentioned; to wit, two thousand millions; bearing an interest of 4 *per cent.* or eighty millions *per annum.*

From the necessities of government, and the distressed situation of the kingdom, this interest was ill paid: and there hardly remained, out of an ill paid revenue, wherewith to defray the expense of the civil government.

About this time Mr. Law presented to the Regent the plan of a bank of circulation.

For the better understanding this affair of Mr. Law's bank, and the views he had in establishing it at that time, I must give a short account of the most material variations of the French coin, before and after the King's death, 1st September 1715; which I shall make as short as possible, consistently with perspicuity.

C H A P. XXIV.

Account of the variations of the French coin, some time before and after the death of Louis XIV.

IN 1709, there was a new general coinage in France; by which operation the King gained $23 \frac{1}{13}$ per cent. upon all the specie coined. (Dutot, vol. i. p. 104.)

Out of the marc of standard gold were coined 30 louis d'ors, of 20 livres denomination each. Out of the marc of standard silver, 8 crowns, of 5 livres denomination each: so that the silver was put at 40 livres the marc. — But,

By edict of the month of September 1713, the old King appointed a diminution of the denomination of silver and gold coins; by which, after eleven successive changes, the coin of France was ordered to be brought down, from 40 livres the marc, to 28: so that the 8 crowns, which were *called* 40 livres in the month of September 1713, by the 2d day of September 1715, (the day after the King's death) were to be *called* only 28 livres. I say *called*, because certainly the crowns had suffered no variation but in their name.

On the 13th of August 1715, (a few days before the King's death) he issued a declaration; ordering that for the future the coin should remain at 28 livres *per* marc.

From this I conclude, that his intention was to leave, at his death, the coin of his kingdom of the same standard he had found it to be at the beginning of his reign, and at which he had preserved it invariably, during the flourishing state of his kingdom, for the space of 46 years; that is, until the year 1689.

He could not fail to be sensible of the infinite prejudice occasioned to debtors and creditors by the variations he had practised upon the coin from 1689.

To this standard, then, it was brought the very day after his death, and no sooner: therefore his debt of two thousand millions of livres should regularly be estimated according to that rate; or at about 40 shillings sterling for every 28 livres: 40 shillings being, within a trifle, the value of 8 ounces or one marc of standard silver; Paris weight.

At this rate of conversion, the two thousand millions were equal to 124,857,140 *l.* sterling.

Soon after the King's death, on the 2d of January 1716, the new ministry issued an edict, which totally destroyed all. This was the most extraordinary operation, I believe, ever invented; and to it was owing the establishment of Mr. Law's bank: I must therefore explain it.

There had been no general coinage since 1709; the louis d'or had then been coined at 20 livres, and the crowns at 5, as has been said. The edict of 2d January 1716, ordered a new general coinage, on the same footing, both as to weight, fineness, and denomination, as that of 1709; the only difference was, that the first had an old man's head upon it; the other had that of a child of six years old.

By this first operation, there was an end put to the former diminutions on the denomination of the coin; which was now raised again to 40 livres the marc, as in 1709 *. This is nothing:

There being no difference between the old coin and the new, except the stamp, the old coin was called in, and a new face was stamped on the very same pieces. But when the louis d'ors were called in, they were received at the mint at no more than 16 livres; and by a stroke of the wheel, they were, in an instant, converted into 20 livres, the denomination of the new coin.

Thus a person who brought 20 old louis d'ors to the mint, received back 16 of his own 20, new stamped, and no injustice was said to be done, from this demonstration of ministerial algebra, viz. $16 + 20 = 20 + 16$. Can any thing be more clear and instructive! Some of my readers may not give credit to this; but it is true nevertheless.

Under these circumstances, it was natural for the inhabitants to wish to dispose of their old coin, at any other market than at the King's mint. They did what they could to smuggle it to Holland; where the industrious Dutchman stamped a 16 livre piece with the head of a child, as well as the King of France could do, and sent it back to France for

* Here is also an operation upon debts. The day before this edict, that is, the 1st of January 1716, the value of the King's debts was (as has been said) above 142 millions sterling: but an edict comes, raising the coin to 40 livres *per* marc; and consequently, reducing the debts to the value of 100 millions sterling.

a 20 livre piece. These operations were prevented as well as government could ; and every method was tried to force in the old coin to the mint.

Mr. Law judged this a very proper occasion to form the plan of a bank of circulation , upon the principles we have already explained.

He gave in his scheme to the Duke of Orleans ; by whom it was approved of ; and the bank was established the 2d of May of the same year 1716.

The first thing Mr. Law did , was to buy up with bank - notes this old coin, at a price above what the mint gave , but many *per cent.* below the proportion of its value : his paper (payable in the new coin at 40 livres *per marc*) was run upon for this , as well as other reasons ; and an immense profit ensued.

This anecdote , I think , is curious, and tends to unfold Mr. Law's combinations, in the proposal he made to the Duke of Orleans for erecting a bank at this period of time.

CHAP. XXV.

Continuation of the Account of Law's Bank.

THE bank accordingly was established in favor of Law and Company , by letters patent, of the 2d of May 1716. The Company was called, the General Bank ; and the note run thus :

The bank promises to pay to the bearer at sight — livres , in coin of the same weight and

fineness with the coin of this day, value received at Paris.

The first fund of this bank consisted in 1200 actions (or shares) of one thousand crowns, (or 5000 livres) bank-money; in all six millions; the crown being then 5 livres, 8 to the marc; silver coin at 40 livres *per* marc, as has been said; which makes this livre just worth one shilling sterling: consequently, the shares were worth 250 *l.* sterling, and the bank-stock worth 300,000 *l.* sterling.

By the clause in the note, by which the bank was obliged to pay according to the then weight and fineness of the coin, those who received their paper were secured against the arbitrary measures common in France of raising the denomination of the coin; and the bank was secured against the lowering of it. In a short time, most people preferred the notes to the coin; and accordingly they passed for 1 *per cent.* more than the coin itself.

This bank subsisted, and obtained great credit, until the 1st of January 1719: at which time the King reimbursed all the proprietors of the shares, and took the bank into his own hand, under the name of the Royal Bank*.

Upon this revolution, the tenor of the note was changed. It ran thus: The bank promises to pay

* Here the bank departed from the principles of private and mercantile credit, upon which Law had formed it, and proceeded upon those of public credit. Public credit in France is the credit of the Sovereign; the solidity of which depends upon the maxims which he follows in the course of his administration.

to the bearer, at sight, — livres, *in silver coin*, value received at Paris.

By this alteration, the money in the notes was made to keep pace with the money in the coin; and both were equally affected by every arbitrary variation upon it. This was called, rendering the paper *monnaie fixe*; because the denominations contained in it did not vary according to the variations of the coin: I should have called it *monnaie variable*; because it was exposed to changes with respect to its real value.

Mr. Law strenuously opposed this change in the bank-notes. No wonder! it was diametrically opposite to all principles of credit. It took place, however; and no body seemed dissatisfied: the nation was rather pleased: so familiar were the variations of the coin in those days, that no body ever considered any thing with regard to coin or money, but its denomination: the consequences of the variations in the value of denominations, upon the accompts between debtors and creditors, were not then attended to; and the credit of the notes of the royal bank continued just as good as that of Mr. Law; although the livres in *this* contained a determinate value; and the livres in *that* could have been reduced at any time to the value of halfpence, by an act of the King's authority, who was the debtor in them. Nay more, they in fact stood many variations during the course of the system, without suffering the smallest discredit. This appears wonderful; and yet it is a fact.

Political writers upon the affairs of France at this

period, such as De Melon, Savarie, Dutot, and others, abundantly certify the incredible advantage produced by the operations of Mr. Law's bank; and the chain of events which followed, in the years 1719, and 1720, when it was in the King's hands, show to what a prodigious height credit arose upon the firm foundation laid by Mr. Law*.

* Dutot, speaking of the great value of paper in notes and actions, throws out several reflections, in the passage I am now to transcribe from him, which, at the same time that they prove the great advantages resulting to France from the establishment of credit among them, abundantly evince how lame this author's ideas were concerning the principles of paper credit, and of circulation. He says, (vol. ii. p. 200.) "*This paper was indeed just so much*
 " real value, which credit and confidence had created, in
 " favor of the state: and by this sum was circulation aug-
 " mented, independently of all the coin which was then
 " in France."

" Upon this revolution, Plenty immediately displayed
 " herself through all the towns, and all the country. She
 " there relieved our citizens and laborers from the oppres-
 " sion of debts, which indigence had obliged them to
 " contract: she revived industry: she restored that value
 " to every fund, which had been suspended by those debts:
 " she enabled the King to liberate himself, and to make
 " over to his subjects, for more than fifty-two millions of
 " taxes, which had been imposed in the years preceding
 " 1719; and for more than thirty-five millions of other
 " duties, extinguished during the regency. This plenty
 " sunk the rate of interest; crushed the usurer; carried
 " the value of lands to eighty and a hundred years pur-
 " chase; raised up stately edifices both in town and coun-
 " try; repaired the old, which were falling to ruin; im-
 " proved the soil; gave a value to every fruit produced by
 " the earth, which before that time had none at all. Plenty

But alas ! the superstructure, then, became so far beyond the proportion of the foundation, that the whole fabric fell to ruin, and involved a nation, just emerging from bankruptcy and inanition, into new calamities, almost equal to the former.

As long as the credit of this bank subsisted, it appeared to the French to be perfectly solid. The bubble no sooner burst, than the whole nation was thrown into astonishment and consternation. No body could conceive from whence the credit had sprung; what had created such mountains of wealth in so short a time; and by what witchcraft and fascination it had been made to disappear in an instant, in the short period of one day.

Volumes have been since writ in France, by men of speculation, in order to prove, that it was a want of confidence in the public, and not the want

“ recalled those citizens, whom misery had forced to seek
“ their livelihood abroad. In a word, riches flowed in from
“ every quarter. Gold, silver, precious stones, ornaments
“ of all kinds, which contribute to luxury and magnificence,
“ came to us from every country in Europe. Whether
“ these prodigies, or marvellous effects, were produced by
“ art, by confidence, by fear, or by whim if you please,
“ one must agree, that that art, that confidence, that fear, or
“ that whim, had operated all these *realities* which the ancient
“ administration never could have produced.

“ What a difference in the situation of France at the
“ beginning of the regency, and the situation in which she
“ was in November 1719 !

“ Thus far the system had produced nothing but good :
“ every thing was commendable, and worthy of admiration.”
These are the sentiments of Dutot, concerning this system of paper credit.

of a proper security for the paper, which occasioned this downfall.

This, if we judge by what has been writ, has been the general opinion of that nation to this day: and since it was found impossible, in France, to create confidence in circulating paper, which had no security for its value, many people there, and some even among ourselves, conclude, that a great part of the wealth of Great Britain, which consists in paper, well secured, is false and fictitious.

I shall now proceed to set before my reader the great lines of the royal Mississippi bank of France, from the 1st of January 1719, to the total overthrow of all credit, upon the fatal 21st day of May 1720. This was a golden dream, in which the French nation, and a great part of Europe was plunged, for the short space of 506 days.

C H A P. XXVI.

*Account of the Royal Mississippi Bank of France;
established on Public Credit.*

IN order to unravel the chaos of this affair in a proper manner, it will not be amiss to begin by giving the reader an idea of the plan which naturally might suggest itself to the Regent of France, from the hint of Mr Law's bank. By the help of this clue, he will be the better able to conduct himself through the operations of this *system*, as the French call it.

The Regent perceived, that in consequence of the credit of Law's bank, people grew fond of paper-money. The consequence of this, he saw, was, to bring a great quantity of coin into the bank. The debts of France were very great, being, as has been said, above 2000 millions. The coin, at that time, in France, was reckoned at about 1200 millions, at 60 livres the marc, or 40 millions sterling. The Regent thought, that if he could draw either the whole, or even the greatest part of this 1200 millions of coin into his bank, and replace the use of it to the kingdom, by as much paper, secured upon his word, that he should then be able to pay off, with it, near one half of all the debts of France: and by thus throwing back the coin into circulation, in paying off the debts, that it would return of itself into the bank, in the course of payments made to the state; that credit would be thereby supported, as the bank would be enabled to pay in coin the notes as they happened to return, in the course of domestic circulation.

This was both a plausible and an honest scheme, relatively to a Duke of Orleans, whom we cannot suppose to have been master of the principles of credit; and very practicable in a country where there was so great a quantity of coin as 40 millions sterling, and a well established credit in the bank, which prevented all runs upon it from diffidence. Nothing but a wrong balance of trade could have occasioned any run for coin; because, for the reason already given, the paper bore for the most part a premium of 1 *per cent.* above it.

Accordingly, during the whole year 1719, the credit of the royal bank was without suspicion, although the Regent had, by the last day of December of that year, coined of bank-paper, for no less a sum than 769 millions, reckoning in 59 millions of paper, which had been formerly issued by the *general bank of Law and company*; for which he had given value to the proprietors, when he took the bank into his own hands, as we have said above.

I must here observe, that by this plan of the Regent, there was, in one sense, a kind of security for the notes issued. So far as they were issued for coin brought in from the advanced value of the paper, this coin was the security: in the second place, when the coin was paid away to the creditors of the state, the Regent withdrew the obligations which had been granted to them; and although I allow that the King's own obligation withdrawn, was no security to the public, who had received bank-notes for the payment; yet still the interest formerly paid to the creditors, was a fund out of which, upon the principles of public credit, the annual interest for the notes was secured. Had, indeed, the French nation perceived upon what bottom the security for the paper stood, during the year 1719, perhaps the credit of the bank might have been rendered precarious; but they neither saw it or sought after it: and the men of speculation were all of opinion, that as long as there was no more paper issued by the bank *than there was coin in the kingdom*, there could be

no harm done. Of this any person who has read Dutot, de Melon, Savarie, and others, will be perfectly satisfied *. And I desire no farther proof of the total ignorance of the French in matters of this kind, than to find them agreeing, that bank

* It is astonishing to find how gravely Messrs. de Melon and Dutot reasoned concerning the nature of paper money, and the effects of changing the value of the coin. They both seemed to agree that a livre was a livre, whether it was the 28th or the 50th part of a marc of silver, whether it was a denomination upon paper, well or ill secured, no matter which.

The whole reasoning turned merely on the question, who were robbed, and who fantastically enriched by such absurd operations upon the coin of a country?

The jargon of such men certainly contributed a great deal to darken the understandings of the ministry at this time; and to make them believe that the affairs of money were infinitely more obscure and more difficult to be understood than they really are.

There are thousands of examples where mankind, with their learning and reasoning, have turned common sense into inextricable science; this I think is a famous instance of it: and it is rendering no small service to the world, to destroy, in a manner, what others have been at so much pains to establish. This is restoring common sense to its native dress, in which it becomes intelligible to every one.

I know very well that the ministry of France have now very different notions concerning paper credit; but these notions have not as yet reached the press, except in some of the King's answers to the remonstrances of the parliament of Paris in 1760. These answers were dictated upon sound principles, and do great honor to the ministry.

The old notions still prevailed in the remonstrances of the parliament. This plainly appears from the proposal they made to the King, at that time, to issue paper to the amount of

paper is always good, providing there be coin in the nation to realize it, although that coin be not the property of the bank. [Dutot, p. 132, 133.] On the contrary; it is very evident from what has been said, that although there should be a thousand times more coin in a country than the bank-paper, still that bank-paper must be a mere delusion, and, in fact, of no value whatsoever, except so far as the bank is possessed of the value of it in one species of property or another.

And on the other hand, let the bank-paper exceed the quantity of coin in the proportion of a thousand to one, yet still it is perfectly good and sufficient, providing the bank be possessed of an equivalent value in any species of good property. This I throw in here to point out how far the French were, at least at that time, and many years after, when Dutot and Melon wrote, from forming any just notion of the principles of banking. And, I believe, I may venture to say, that the only reason why banks have never been established in France, is, because the whole operation is still a mystery to them. I ground this conjecture upon an opinion of M. de Montesquieu, who thinks that banks are incompatible with pure monarchy; a proposition he would never have advanced had he

200 millions, which the parliament was to make good. An expedient to avoid doing that which right reason demanded of them, viz. first to secure a fund for the paper, and then to borrow upon that fund. This proposal from the parliament, and the King's rejecting it, proves that credit was then better understood in the cabinet than in the *palais*.

understood the principles upon which they are established.

The next remarkable and interesting revolution made upon this famous bank, was by the *arrêt* of February 22, 1720; which constituted the union of the royal bank with the company of the Indies.

By this *arrêt*, the King delivered to that company the whole management of the bank with all the profits made by him since the first of January 1719, and in time coming. Notwithstanding this cession, the King remained guarantee for all the notes, which were not to be coined without an order of council: the company was to be responsible to the King at all times for their administration; and, as a security for their good management, they engaged to lend the King no less than sixteen hundred millions of livres.

Here is the æra and beginning of all the confusion. From this loan proceeded the downfall of the whole system.

But before I proceed to explain the scheme of the Regent in these operations upon credit, I think it will contribute to the clearing up of the subject in general, to premise some short account of the rise and progress of this great company of the Indies: and to give a short abstract of some of the most memorable transactions during the Mississippi scheme, in the order of time in which they followed one another.

C H A P. XXVII.

A short Account of the French Company of the Indies.

CARDINAL de Richlieu, that great minister to Louis XIII. was the first who established trading companies in France, *anno* 1628, about the time of the siege of Rochelle.

He then set on foot the companies of the West and East Indies.

Several others, viz. one for Canada, one for the Leeward Islands, and another for Cayenne, were successively established in the beginning of the reign of Louis XIV.

These companies, before 1664, had frequently changed their forms, and had succeeded very ill.

At that time the great Colbert was in the administration of the King's affairs. He engaged his master to think seriously of establishing the trade of his kingdom upon solid principles; for which reason all the undertakers of the former projects of commerce to the new world were reimbursed; and a new establishment was made, called the *Compagnie des Indes Occidentales*.

This exclusive trade comprehended that of Canada, the Caribbee Islands, Acady, Newfoundland, Cayenne, the French continent of America, from the river of the Amazons to that of Oronoko, the coasts of Senegal, Goree, and other places in Africa; the whole for 40 years.

The same year, 1664, there was another company

formed for the East Indies, of which we shall speak afterwards.

The greatest encouragement was given to these new establishments. Large sums were advanced by the King for several years, without interest, and upon condition, that if, at the end of that term, any loss was found on the trade, it should fall upon the money due to the King.

On examining into the West India company's affairs, after ten years administration, that is to say, in the year 1674, it was found, that instead of profiting of their extensive privilege, by carrying on a regular trade themselves, they had sold permissions to private people to trade with them.

This abuse in the company had, however, inspired a taste for trade among the French; which the King wishing to improve, he reimbursed to the company all their expenses, added their possessions to his domain, and threw the trade open to his subjects.

Thus ended the first company of the West Indies, called by the French, the *Compagnie d'Occident*.

After the suppression of this company, the French trade to America was carried on and improved by private adventurers, some of which obtained particular grants, to enable them to form colonies. Of this number was Robert Chevalier de la Sale, a native of Rouen. It was he who first discovered the river Mississippi, and who proposed to the King, in 1683, to establish a colony there. He lost his life in the attempt.

Hiberville, a Canadian, took up the project; but soon died. He was succeeded by Antony Crozat,

in 1712, who had better success: but the death of the King in 1715, and the rising genius of Mr. Law, engaged the Regent of France to make Crozat renounce his exclusive privilege of trading. Upon which, by edict of the 6th of September 1717, was formed the second *Compagnie d'Occident*, in favor of Mr. Law: to which was added the fur trade of Canada, then in the hands of private adventurers, and the farm of the tobacco, for which he paid 1,500,000 livres a year.

I now come to the East India company.

I have already mentioned the establishment of it by the great Colbert in 1664.

After his death, want of experience in those who succeeded him, abuse of administration, carelessness in those who carried on the company's business, competition between different companies, and, in short, every obstacle to new establishments, concurred with the consequences of the long and expensive wars of Louis XIV. to render all commercial projects ineffectual; and all the expense bestowed in establishing those companies was in a manner lost.

In 1710, the merchants of St. Malo undertook the East India company. It languished in their hands until 1719, and their importations were not sufficient to supply the demand of France for India goods: for this reason it was taken from them, and incorporated with Mr. Law's company of the West Indies, in May 1719.

By this incorporation was established the great *Company of the Indies*, which still subsists in France: the only monument extant of the famous and unfortunate Law.

For the better understanding, therefore, what is to follow, let us attend to some historical and chronological anecdotes, relative to the wonderful operations of this Mississippi bank, and company of the Indies. These I shall set down according to the order of time in which they happened, that my reader may have recourse to them as he goes along.

Without the help of this table, I should be involved in a history of those events, which however amusing it might be to some readers, would be quite inconsistent with the nature of this inquiry.

CHAP. XXVIII.

Chronological Anecdotes.

1709. **A** GENERAL coinage in France: the marc of standard silver, worth two pounds sterling, put at 40 livres denomination.

September 1713. The late King reduces the denomination of the silver coin to 28 livres the marc, and the gold in proportion.

These reductions were made gradual and progressive, and were finally to take place no sooner than the 2d of September 1715.

August 1715. The King declares, that in time coming, the coin was to remain stable at 28 livres the marc of fine silver.

September 1715. The King dies.

January 2, 1716. The Regent of France orders a new general coinage: raises the silver coin to 40 liv. the marc, and calls down the old King's coin (though

of the same weight, fineness, and denomination) 20 *per cent*.

May 1716. Mr. Law's bank established: bank-notes coined; and the old coin bought up at great discount.

September 6, 1717. Mr. Law's company of the West established.

September 4, 1718. He undertakes the farm of tobacco.

September 22, 1718. The first creation of actions of the company of the West to the number of 200,000, subscribed for in state billets, at the rate of 500 livres *per action*.

January 1, 1719. The bank taken from Law, and vested in the King. At this time the number of bank-notes coined amounted to 59 millions of livres.

April 22, 1719. A new coinage of 51 millions of notes; in which the tenure of the note was changed, and the paper declared *monnoie fixe*.

May 1719. Mr. Law's company of the West incorporated with the company of the East Indies; after which it was called the *Company of the Indies*.

June 1719. Created 50,000 new actions of the incorporated company; sold for coin at 550 livres *per action*.

June 10, 1719. Coined of bank-notes for 50 millions of livres.

June 17:9. The mint made over to the company for 50 millions.

July 1719. Created 50,000 actions as above, sold, for notes, at 1000 livres *per action*.

July 25, 1719. Coined of bank-notes for 240 millions.

August 1719. The company obtains the general farms: promises a dividend upon every action of 200 livres: agree to lend the King sixteen hundred millions at 3 *per cent.* and have transferred to them 48 millions *per annum* for the interest of that sum.

September 12, 1719. Coined of bank-notes for 120 millions.

September 13, 1719. Created no less than 100,000 actions; price fixed at 5000 livres *per* action.

September 28, 1719. Created 100,000 more actions, price as the former, fixed at 5000 livres each.

October 2, 1719. Created 100,000 more actions, price as the former, at 5000 livres each.

October 4, 1719. Coined by the Regent's private order, not delivered to the company, 24 000 more actions, which completed the number of 624,000 actions; beyond which they never extended.

October 24, 1719. Coined of bank-notes for - 120 millions.

Decemb. 29, 1719. Coined of bank-notes for 129 millions.

January 1720. Coined of bank-notes for - 21 millions.

February 1720. Coined of bank-notes for - 279 millions.

February 22, 170. Incorporation of the bank with the company of the Indies.

February 27, 1720. A prohibition by which no one was to have in his custody more than 500 livres of coin.

March 5, 1720. The coin raised to 80 livres *per* marc.

March 11, 1720. The coin brought down to 65 livres *per* marc; and gold forbid to be coined at the mint, or used in commerce.

March 1720. Coined of bank-notes for - 191 803 060 livres.

April 1720. Coined of bank-notes for - 792 474 720

May 1, 1720. Coined of bank-notes for - 642 395 130

May 21, 1720. The denomination of the paper diminished by *arrêt* of council, which, in an instant, put an end to all credit, and made the bubble burst.

At this period had been coined of bank-notes to the immense sum of

livres.

- - - - -	-	2 696 400 000
Of which had been issued	-	2 235 083 590
Remained in the bank	-	461 316 410

Dutot, Vol. I. p. 144. Vol. II. p. 207.

May 27, 1720. The *arrêt* of the 21st of this month recalled, and the paper restored to its full denomination.

May 29, 1720. The coin raised to 82 livres 10 sols *per marc*.

June 3, 1720. 400,000 actions belonging to the Regent are burnt; and the 24,000 more, which were created October 4, 1719, suppressed; also 25 millions of the interest formerly granted to the company for their loan of 1600 millions, retroceded by the company, and constituted again upon the town-house of Paris.

October 10, 1720. All bank-notes are ordered, by *arrêt* of this day, to be suppressed, if not brought to the bank before the 1st of December following, in order to be paid in manner therein specified.

C H A P. XXIX.

Continuation of the Account of the Royal Bank of France, until the time that the Company of the Indies promised a Dividend of 200 Livres per Action.

TH E S E things premised, what follows will, I hope, be easily understood.

So soon as the Regent of France perceived the wonderful effects produced by Mr. Law's bank, he immediately resolved to make use of that engine, for clearing the King's revenue of a part of the unsupportable load of 80 millions of yearly interest, due, though indeed very irregularly paid, to the creditors.

It was to compass this end, that he bestowed on Mr. Law the company of the West Indies, and the farm of the tobacco.

To absorb 100 millions of the most discredited articles of the King's debts, 200,000 actions or shares of this company were created. These were rated at 500 livres each, and the subscription for the actions was ordered to be paid in *billets d'état*, so much discredited by reason of the bad payment of the interest, that 500 livres, nominal value in these billets, would not have sold upon change for above 160 or 170 livres. In the subscription they were taken for the full value. As these actions became part of the company's stock, and as the interest of the billets was to be paid to them by the King, this was effectually a loan from the company to the King of 100 millions at 4 per cent.

The next step was to pay the interest regularly

to the company. Upon this the actions which had been bought for 170 livres, real value, mounted to par, that is, to 500 livres.

This was ascribed to the wonderful operations of the bank; whereas it was wholly owing to the regular payment of the interest.

In May following 1719, the East India company was incorporated with the West India company: and the 200,000 actions formerly created, were to be entitled to a common share of the profits of the joint trade.

But as the sale of the first actions had produced no liquid value which could be turned into trade (having been paid for in state billets) a new creation of 50,000 new actions was made in June 1719, and the subscription opened at 550 livres payable in effective coin.

The confidence of the public in Mr. Law, was at this time so great, that they might have sold for much more: but it was judged expedient to limit the subscriptions to this sum; leaving the price of the actions to rise in the market, according to demand, in favor of the original subscribers.

This money amounting to 27 500 000 livres in coin, was to be employed in building of ships, and other preparations for carrying on the trade.

The hopes of the public were so much raised by the favorable appearance of a most lucrative trade, that more actions were greedily demanded.

Accordingly in a month after (July 1719) another creation was made of 50,000 actions; and the price of them fixed at 1000 livres.

It must be observed, that all actions delivered by

the company of the Indies, originally contained an obligation on the company for no more than 4 *per cent.* upon the value of 500 livres, with a proportion of the profits on the trade; so that the rise of the actions proceeded entirely from the hopes of those great profits, and from the sinking of the rate of interest; a consequence of the plenty of money to be lent.

But besides the trade, what raised their value at this time, was, that just before the last creation of actions, the King had made over the mint to the company for a consideration of 50 millions of livres; and this opened a new branch of profit to every one interested.

The sale of the last coined actions taking place at 1000 livres each, so great a rise seems to have engaged the Regent to extend his views much farther than ever. To say that he foresaw what was to happen, would be doing him the greatest injustice. He foresaw it not, most certainly; for no man could foresee such complicated events. But had he conducted himself upon solid principles; or by the rules which, we now say, common honesty required, he certainly never would have countenanced the subsequent operation.

The fourth creation of actions was in the beginning of September 1719.

In the interval between the third and the fourth creation, the Regent made over the general farms to the company, who paid three millions and a half advanced rent for them. And the company obliged themselves to lend the King (including the 100 millions already lent upon the first creation of actions) the immense sum of 1600 millions at 3 *per cent.* that is,

for 48 millions interest. Now it is very plain, that before the month of September 1719, it was impossible they could lend the King so great a sum.

They had already lent him, in September 1718, 100 millions, by taking the *billets d'état* for the subscription of the first creation of actions; the second creation had produced coin, laid out in mercantile preparations; and the third creation of actions, at the standard value, was worth no more than 50 millions of livres: this was their whole stock. Where then could they find 1500 millions more to lend?

I therefore conclude, that at this time, the combination which I am now to unfold, must have, more or less, taken place between the Regent and this great company.

The public was abundantly imbibed with the notion of the prodigious profits of the company, before they got possession of the general farms. No sooner had they got that new source of riches into their hands, than they promised a dividend of no less than 200 livres on every action, which was ten times more than was divided on them when at first created.

The consequence of this was, that (supposing the dividend permanent and secure) an action *then* became as well worth 5000 livres as at *first* it was worth 500 livres; accordingly to 5000 did it rise, upon the promise of the new dividends.

But what could be the motive of the company to promise this dividend, only three months after their establishment? Surely, not the profits upon a trade which was not as yet opened. Surely, not the profits upon the King's farms; for these profits it was greatly their interest to conceal.

Their views lay deeper. The Regent perceived that the spirit of the nation was too much inflamed, to suffer them to enter into an examination of the wonderful phenomena arising from the establishment of the bank, and company of the Indies. If the company promised 200 livres dividend, the public concluded that their profits would enable them to pay it; and really in this particular the public might be excused.

The plan, therefore, concerted between the Regent and the company seems to have been, to raise the actions to this great value, in order to suspend a greater quantity of notes in circulation.

This was to be accomplished, 1. by the Regent's purchasing the actions himself from the company; 2. by borrowing back the notes he had paid for them, in order to fill up the loan which the company had agreed to make; 3. to pay off all the public creditors with those notes so borrowed back; and 4. when the nation was once filled with bank-paper, to sell the actions he had purchased from the company, to withdraw his own paper, and then destroy it.

By this operation the whole debts of France were to be turned into actions; and the company was to become the public debtor, instead of the King, who would have no more to pay but 48 millions of interest to the company.

By this operation also, the Regent was to withdraw all the bank-notes which he had issued for no other value but for the payment of debts; which notes were demandable at the bank; and for the future, he was to issue no more (I suppose) but for value preserved.

C H A P. XXX.

Inquiry into the Motives of the Duke of Orleans in concerting the Plan of the Mississippi.

NOW if we examine the motives of the Regent, with regard to this plan, and suppose that he foresaw all that was to happen in consequence of it; and if we also suppose that he really believed that the company never could be in a situation to make good the dividend of 200 livres, which they had promised upon their actions; in a word, if we put the worst interpretation upon all his actions, we must conclude that the whole was a most consummate piece of knavery.

But as this does not appear evidently, either by the succeeding operations, or ultimate consequences of this scheme, I am loth to ascribe, to that great man, a sentiment so opposite to that which animated him, on his entrance upon the regency, when he nobly rejected the plan proposed to him for expunging the debts altogether.

I may therefore suppose, that he might believe that the company to whom he had given the mint, the tobacco, the farms, and the trade of France, and to whom he soon after gave the general receipt of all the revenue, might by these means be enabled to make good their engagements to the public. I say, this *may be supposed*; in which case justice was to be done to every one; and the King's debts were to be reduced to 48 millions a year, instead of 80 millions.

That this is a supposable case, I gather from Dutot, who gives us an enumeration of the revenue of the company, Vol. I. p. 162. as follows:

Revenue of the Company of the Indies.

Interest paid to the company <i>per annum</i>	-	48 000 000
Profits upon the general farms	- -	15 000 000
Ditto upon the general receipt of other taxes		1 500 000
Ditto upon the tobacco	- - -	2 000 000
Ditto upon the mint	- - - -	4 000 000
Ditto upon their trade	- - -	10 000 000
In all of yearly income	- - -	80 500 000

Now if we suppose the interest of money at 3 *per cent.* this sum would answer to the capital of 2664 millions, which was more than all the debts of the kingdom, for which they were to become answerable.

Upon this view of the matter, I say, *it was possible*, that the Regent might form this plan, without any intention to defraud the creditors; and more I do not pretend to affirm.

I have said that he purposely made the company raise the price of their actions, in order to draw more notes into circulation.

To this it may be objected, that he might as well have paid off the creditors with bank-notes, without going this round-about way to work; and have left them to purchase the actions directly from the company.

I answer, that such an operation would have appeared too barefaced, and might have endangered the credit of the bank. Whereas in buying the actions which were run upon by every body, the state only

appeared desirous of acquiring a share of the vast profits to be made by the company. Farther,

As the company appeared willing to accept of bank-notes from the state, in payment of their actions, this manœuvre gave an additional credit both to the actions, and to the notes; a thing very necessary to be attended to, in a scheme which was calculated to bring about a total transformation of the security for the King's debts.

I must however observe, that at the period concerning which we are now talking, (viz at the time the company promised the dividend of 200 livres *per* action) the plan we have been describing could not have been carried into execution.

There were at that time only 400,000 actions created, rated at 777 millions: of these were disposed of at least 250,000, to wit, the original 200,000; and the second creation of 50,000, sold for coin. Besides, there were then only coined in bank-notes for 520 millions. So there was not a possibility of executing the plan I have mentioned, as matters then stood.

It is from the subsequent operations of the system, that it appears evident that this and this only could be the intention.

We shall see how the number of actions were multiplied, without any other view than to make the public imagine, that the funds necessary for carrying on the trade of the company were immense.

The number of the actions sold to the public was very inconsiderable, compared with those sold to the Regent, and found in his hands at the blowing up of the system.

Besides, at the period when the number of actions was carried to the utmost, viz. to 624,000, the bank-notes bore no proportion to their value; for, on the 4th of October 1719, when the last creation of actions was made, the bank-notes did not exceed the sum above specified, to wit, 520 millions.

But in tracing the progress of the system upon the table, we perceive, that after the actions were once carried to their full number, (October 4th, 1719) then the coining of bank-notes began at a most prodigious rate; in so much, that by the month of May 1720, they were increased from 520 millions, to above 2696 millions; and all this sum, except 461 millions, were found in circulation.

Farther: We shall see, that when the Regent and the company made out their accompts, there were found in the Regent's hands no less than 400,000 actions, which were burnt; and 25 millions of interest upon the sum of money due by the King to the company, extinguished.

These facts prove beyond a doubt, that these 400,000 actions had been bought with the notes coined posterior to the 4th of October 1719; otherwise the actions could not have become the property of the state.

Besides, it was acknowledged publicly, that the notes were coined for that purpose. (See Dutot, Vol. I. p. 144.) In the next place, it is evident, that the notes which had been given in payment for those actions, had been borrowed back, to fill up the loan of 1600 millions of livres; which the company never could have otherwise lent to the King.

King. And in the last place, it is certain that the public debts were paid off with these notes, so borrowed back from the company: because we shall find the notes in circulation at the blowing up of the system, in May 1720; and we shall see how they were paid and withdrawn in October following.

This detail I own is a little long, and perhaps too minute: but I thought it necessary to prove the solidity of my conjectures concerning the Regent's motives in concerting this plan; which no French author, that ever I saw, has pretended to unfold, except by hints too dark to be easily comprehended.

What is now to follow, will still set my conjectures in a fairer light. We have seen already from the table, with what rapidity the creation of actions went on from the 13th of September to the 4th of October 1719. No less than 324,000 were created in that interval.

Yet Dutot, vol. ii. p. 169, & *seq.* positively says, that on the 4th of October, the company had not sold for more than 182,500,000 livres of their actions. Now the total value, as they were rated when created, extended to 1,797,500,000; so there was little more than one tenth part of the value sold off.

Why therefore create such immense quantities of actions, and so far beyond the demand for them; but to throw dust in the eyes of the public; to keep up the spirit of insatiation; and to pave the way for the final execution of the plan?

The actions being brought, by four successive

creations, of the 13th and 28th of September, the 2d and 4th of October, to their full number, the company, during that interval, obtained the general receipt of the whole revenue. Thus, says Dutot, vol. ii. p. 197. the company was intrusted with the whole revenue, debts and expenses of the state, and all unnecessary charge was avoided in collecting and administering it.

In the month of November 1719, the credit of the bank, and of the company, was so great, that the actions rose to 10,000 livres. Notwithstanding, says Dutot, vol. ii. p. 189. that the company did what they could to keep down the price, by throwing into the market, in one week, for no less than 30 millions. He assigns seven different reasons for this, which, all put together, are not worth one; to wit, that the Regent was ready to buy up every one that lay upon hand, in concert with the company.

If the company had been inclined to keep down the price of the actions, they had nothing more to do than to deliver part of the vast number they still had unfold, at the standard value of 5000 livres, at which they were rated when created; and this would have effectually prevented their rising to 10,000 livres.

But it was the interest of the Regent, who was at that time well provided with actions, to stock-job, and to buy with one hand, while he was selling with the other: these operations were then as well known in the street called Quinquempoix, as now in Change-alley.

As a proof of the justness of my allegation, that the Regent was doing all he could to raise the price of the actions, Dutot informs us, in the place above cited, that the bank, at this very time, was lending money, upon the security of actions, at 2 *per cent*. If that was the case, how was it possible that an action, with 200 livres dividend, should sell for less than 10,000 livres, which is the capital corresponding to 200 livres, at 2 *per cent*.

This is evident; and were it necessary, it may be proved to demonstration, that the rise of the actions was the consequence of a political combination.

But *if* money, at that time, came to bear no more than 2 *per cent*. and if the company was able to afford 200 livres upon the action; where was the inequity of raising the actions to 10,000 livres? I confess I can see none, nor do I perceive either the impossibility or improbability of the two postulata, had matters been rightly conducted.

As to money's falling to 2 *per cent*. any man of 20 years old may expect to see it, without a *Mississippi*: and as for the payment of the dividends, there never were in the hands of the public, nor ever could be, had all the creditors of the 2000 millions of public debts invested in actions at 10,000 a-piece, one half of 624,000 actions disposed of: consequently, the 200 livres dividend would not have amounted, upon 312,000 actions, to more than 62,400,000 livres; and the revenue of the company, as we have seen, exceeded 80 millions a year.

This still tends to vindicate the Regent from the gross imputation of fraud, in the conduct of the *Mississippi*.

But what should still more exculpate that prince, in the eyes of every impartial man who examines the whole conduct of the affair, is the uniform sentiments of the most intelligent men in France concerning the doctrine of money and credit.

When we find Dutot, who wrote against the arbitrary change of the coin; and De Melon, the Regent's man of confidence and secretary, who wrote for it, two persons considered in France as most able financiers, both agreeing, that during the operations of the system, money never was to be considered but according to denominations; that there was nothing against good policy in changing the value of these denominations; and that paper-money, whether issued for value, or for no value, or for the payment of debts, was always good, *providing there was coin enough in France for the changing of it*, although that coin did not belong to the debtors in the paper; when these principles, I say, were adopted by the men of penetration in France; when we find them published in their writings, many years after the Regent's death, as maxims of what they call their *crédit public*; I think it would be the highest injustice to load the Duke of Orleans with the gross imputation of knavery, in the Mississippi scheme.

Law no doubt saw its tendency. But Law saw also, that credit supported itself on those occasions, where it stood on the most ticklish bottom: he saw bank-notes to the amount of more than two thousand millions, issued in payment of the King's debts, without occasioning any run upon the bank, or

without suggesting an idea to the public that the bank should naturally have had some fund, to make them good: he saw people, who were in possession of a value in paper exceeding 6000 millions of livres, 60 to the marc, (Dutot, vol. i. p. 144.) look calm and unconcerned, when, in one day, the coin was raised in its denomination to 80 livres in the marc; by which operation, the 6000 millions of the day before lost 25 *per cent.* of their real value. He saw that this operation did not in the least affect the credit of the bank-paper; because people minded nothing but denominations.

He saw farther, that by the operation proposed, the whole debt of the King would be transferred upon the company. He saw that these debts, being turned into bank-notes, would not be sufficient to buy above 200,000 actions, at the value they then sold for. He knew that the Regent, who had bought 400,000 of these actions at 5000 livres apiece, that is, at half price, would remain in possession of 200,000 actions, after selling enough to draw back the whole of the bank-notes issued for the payment of the debts; and he saw that the company of the Indies had a yearly income of above 80 millions to enable them to make good their engagements: besides, he saw a power in the King to raise the denominations of the coin at will; without shocking the ideas of his people, by which means he might have paid the 2000 millions with one louis d'or. Put all these circumstances together, and I imagine that Law's brain was turned; that he had lost sight of all his principles; and that he might believe that his former

common sense, was, at that time, become absolute nonsense *in France*.

That common sense may become nonsense, is a thing by no means peculiar to France, but quite peculiar to *man*.

I shall offer but one argument more, to prove that the Duke of Orleans, and Law, could have no premeditated design of defrauding the public, by these wonderful operations; which is, that admitting the contrary, would be allowing them an infinite superiority of understanding over all the rest of Europe.

Until the bubble burst, no body *could* know where it was to end: every thing appeared very extraordinary indeed; and the fatal catastrophe might have been expected from the greatness of the undertaking, merely. But if there had been any roguery in the plan itself, it must have appeared palpable long before; because the whole of the operations in which only *it could* consist, were public.

All the notes were created by public act of council; so were the actions: the loan of 1600 millions to the King, by the company, was a public deed; so was the alienation in their favor, of 48 millions for the interest of that sum. Notes were avowedly coined in order to purchase actions, (Dutot, Vol. I. p. 144.) the creditors were avowedly paid with bank-notes, at a time when it was forbid to have 500 livres in coin in any person's custody; consequently, it was also forbid to demand coin for bank-notes.

Now all this was going on in the months of

February, March, April, and the beginning of May 1720; and no suspicion of any failure of credit. The coin also was sometimes raised, sometimes diminished in its value, and still the fabric stood firm.

Under these circumstances, to say there was knavery, is to say that all the world were absolutely blockheads, except the Regent and John Law: and to that opinion I never can subscribe.

It may seem surprising that I should take so much pains to vindicate the two principal conductors of that scheme. My intention is not so much to do justice to their reputation, which has been grossly calumniated by many, who have written the history of those times, as to prove, that an ill concerted system of credit may bring ruin on a nation, although fraud be out of the question: and if a nation be plunged into all the calamities which a public bankruptcy can occasion, it is but a small consolation to be assured of the good intentions of those who were the cause of it.

C H A P. XXXI.

Continuation of the Account of the royal Bank of France, until the total Bankruptcy on the 21st of May 1720.

I NOW resume the thread of my story. We left off at that period when the credit of the company and of the bank was in all its glory, (November

1719) the actions selling at 10,000 livres; dividend 200 livres a year *per* action; and the bank lending at 2 *per cent.*: all this was quite consistent with the then rate of money.

In this state did matters continue until the 22d of February 1720, when the bank was incorporated with the company of the Indies.

The King still continued guarantee of all the bank - notes, none were to be coined but by his authority: and the controller-general for the time being, was to have, at all times, with the *Prévot des marchands* of Paris, ready access to inspect the books of the bank.

As the intention, at the time of the incorporation, was to coin a very great quantity of notes, in order to buy up the actions; and to borrow back the money, in order to pay off the creditors; it was proper to gather together as much coin as possible, to guard against a run upon the bank: for which purpose the famous *Arrêt de Conseil*, of the 27th of February 1720, was published, forbidding any person to keep by them more than 500 livres in coin.

This was plainly annulling the obligation in the bank - paper, *to pay to the bearer on demand the sum specified, in silver coin.*

Was it not very natural, that such an *arrêt* should have, at once, put an end to the credit of the bank. No such thing however happened. The credit remained solid after this as before; and no body minded gold or silver any more than if the denomination in their paper had no relation to

those metals. Accordingly, many, who had coin and confidence, brought it in, and were glad to get paper for it.

The coin being collected in about a week's time, another *Arrêt de Conseil*, of the 5th of March, was issued, raising the denomination from 60 livres to 80 livres the marc. Thus, I suppose, the coin which the week before had been taken in at 60 livres, was paid away at 80: and the bank gained $33 \frac{1}{3}$ per cent. upon this operation. Did this hurt the credit of the bank-paper? Not in the least.

So soon as the coin was paid away, which was not a long operation, for it was over in less than a week; another *Arrêt de Conseil*, of the 11th of the same month of March, came out; declaring that, by the first of April, the coin was to be again reduced to 70 livres the marc, and on the first of May to 65 livres. Upon this, the coin, which had been paid away the week before, came pouring into the bank, for fear of the diminution which was to take place the first of April. In this period of about three weeks, the bank received about 44 millions of livres; and those who brought it in thought they were well rid of it.

It was during the months of February, March, and April 1720, that the great operations of the system were carried on.

We may see by the chronological anecdotes in the 28th chapter, what prodigious sums of bank-notes were coined, and issued during that time. It was during this period also, that a final conclusion was put to the reimbursing all the public

creditors with bank-notes: in consequence of which payment, the former securities granted to them by the King, under the authority of the parliament of Paris, were withdrawn and annulled.

Here then we have conducted his scheme to the last period.

There remained only one step to be made to conclude the operation; to wit, the sale of the actions, which the Regent had in his custody to the number of 400,000.

These were to be sold to the public, who were at this time in possession of bank-notes to the value of 2,235,083,590 livres. See the foregoing table.

Had the sale of the actions taken place, the notes would all have returned to the bank, and there have been destroyed: by which operation, the company would have become debtor to the public for the dividends of all the actions in *their* hands, and to the King for all those which might have remained in the hands of the Regent. These proportions we cannot bring to any calculation, as it would have depended entirely on the price of the actions during so great an operation; and on the private conventions between the parties, the Regent and the company.

But alas! all this is a vain speculation. The system which hitherto had stood its ground in spite of the most violent shocks, was now to tumble into ruin from a childish whim.

In order to set this stroke of political arithmetic in the most ludicrous light possible, I must do it in Dutot's own words, uttered with a sore heart and in sober sadness.

He had said before, that the coin of France was equal to 1200 millions of livres at 60 livres the marc. This marc was now at 65 livres (in May 1720, as above) so the *numerary* value, as he calls it, (that is the denomination) of the coin was now risen to 1,300,000,000; but the bank - notes circulating in the month of May were carried to 2,696,400,000; then he adds,

“The 1300 millions of coin *which were in France,*
 “were very far from 2696 millions of notes. In
 “that case, the sum of notes was to the sum of
 “coin, nearly as 2 $\frac{2}{27}$ are to 1; that is to say,
 “that 207 livres 8 sols 1 $\frac{7}{8}$ deniers in notes, was
 “only worth 100 livres in coin; or otherwise, that a
 “bank - note of 100 livres, was only worth 48
 “livres 4 sols 5 deniers in coin, or thereabouts.”

Would not any mortal conclude from this, that the whole sum of 1300 millions had been in the bank, as the only fund for the payment of the paper?

This is a labored equation, and from it we have a specimen of this gentleman's method of calculating the value of bank - paper: but let us hear him out.

“This prodigious quantity of money in circulation, says he, had raised the price of every
 “thing excessively: so in order to bring down
 “prices, it was judged more expedient to diminish
 “the denomination of the bank-notes, than to raise
 “the denomination of the coin; because *that* diminished the quantity of money, *this* augmented it.”

This was the grand point put under deliberation, before the famous *arrêt* of the 21st of May was given, viz. whether to raise the value of the coin, *which did not belong to the bank, but to the French nation*, to double the denomination it bore at that time, that is, to 130 livres the marc, by which means the 1300 millions would have made 2600 millions, or to reduce the 2600 millions of bank-notes to one half, that is, to 1300 millions, the total denomination of the coin.

To some people it would have appeared more proper, to allow matters to stand as they were, as long as they would stand, at least until the actions had been all sold off; but this was not thought proper. After a most learned deliberation, it was concluded to reduce the denomination of all the paper of France, bank-notes as well as actions, instead of raising the denomination of the coin; and this because prices were in proportion to the quantity of the denominations of money.

The *arrêt* was no sooner published than the whole paper fabric fell to nothing. The day following, the 22d of May, a man might have starved with a hundred millions of paper in his pocket.

This was a catastrophe the like of which, I believe, never happened: it is so ridiculous that it is a subject fit only for a farce.

Here Dutot's lamentations and regrets are inimitable.

In one place he says, "Credit was too far stretched to be solid. It was therefore proper to sacrifice one part, to give a solidity to the other.

“ Even this was done ; but the consequences did
 “ not correspond to the intention. Confidence,
 “ which is the soul of credit, eclipsed itself, and
 “ the loss of the bank-note, drew on the loss of
 “ the action.”

In another place he says, “ This *arrêt* of the 21st
 “ of May, which according to some *blessoit l'équité*”
 (a very mild expression!) “ destroyed all confi-
 “ dence in the public ; because the King had di-
 “ minished one half of that paper money (the bank-
 “ notes) which had been declared fixed.”

Is it not a thousand pities that confidence should
 have disappeared upon so slight a wound given to
 equity, only in the opinion of some ? For Dutot
 thought the operation perfectly consistent with the
 principles of public credit.

He tells us, that a letter was writ to calm the
 minds of the people ; and to show them how ab-
 surd it was, to allow the paper to be fixed, while
 the coin varied : but, says he, “ as there was a
 “ revenue attached to the action, the value of that
 “ paper did not depend so much upon the capital,
 “ as on the sum of the interest.” Very just. But
 were the dividends to stand at 200 livres, without
 suffering the same diminution as the action ? And
 how was confidence to subsist in a country, where
 the denominations of both the paper and the coin
 were at the disposal of a minister ?

The diminution upon the paper, by the *arrêt* of
 the 21st of May, raised a most terrible clamor ;
 and Law became the execration of France, instead
 of being considered as its saviour. He was banished,
 and reduced to beggary the same day.

What profit could either the Regent, or Law, have reaped from the success of such an operation? Had the coin been raised to 130 livres the marc, no hurt would probably have ensued, and the same effect would have been produced.

Had matters been left without any change at all, no bad consequences would have followed: these existed only in the heads of the French theorists. There was, indeed, twice as much money in bank notes as in coin, in the whole kingdom of France: and what then?

When the Regent saw the fatal effects of his *arrêt* of the 21st of May, he revoked it on the 27th of the same month. On the 29th, he raised the coin to 82 livres 10 sols in the marc, and re-established all the paper at its former denomination: but, as Dutot has said, confidence was gone, and was no more to be recalled. Nothing surprises me, but that she lived so long under such rough management.

Dutot, in talking of this augmentation of the coin, on the 29th of May, to 82 livres 10 sols, says, "This operation was consistent with the principles of public credit, and advantageous. They would have done better had they pushed the augmentation to 135 livres the marc; which would have made the specie of France equal to the sum of bank-notes." These are his words, p. 165.

Are not these very sensible principles, coming from a man who has writ a book, which indeed few people can understand, in order to prove the great hurt of tampering with the coin of France?

C H A P. XXXII.

Conclusion of the Mississippi Scheme.

TH E Regent, persuaded that the blunder of the 21st of May was absolutely irreparable, fell to work next to clear accompts with the company.

He owed them 1600 millions capital, and 48 millions a year of interest upon it.

On the other hand, he had in his possession no less than 400,000 actions, which at 200 livres dividend, which the company was obliged to pay, amounted to 80 millions a year.

How the Regent and the company settled matters, I do not know precisely. This, however, is certain, that by the *arrêt* of the 3d of June 1720, the number of 400,000 actions, belonging to the Regent, were burnt; and 24,000 more which had been created by his particular order, the 4th of October 1719, and never delivered to the company, were suppressed.

On the other hand, the company ceded 25 millions a year, of the 48 millions which had been transferred to them.

That sum was constituted anew upon the town-house of Paris, as a fund to be subscribed for by the proprietors of bank-notes, at the rate of 2 1/2 per cent. or as the French call it at the 40th penny. (Dutot, p. 168.) In consequence of this, 530 millions of bank-notes were subscribed for, and paid in, in the month of June 1720.

After the destruction of the 400,000 actions, the credit of the bank-notes languished until the 10th of October 1720.

The object for which they were created was now gone. The whole scheme of transferring the King's debts upon the company vanished in the conflagration of the actions. What was then to be done?

The bank was at an end: 2235 millions of discredited bank-notes in circulation, and a small sum of coin to make them good, was a situation which no authority could long support.

The resolution then was taken to put a final conclusion to this great affair; to bid a long farewell to credit and confidence; and to return upon the old system of rents upon the town-house of Paris; and of coming at money in the best way they could.

We shall now see how this was accomplished; and from that form a pretty good guess at the extent of the fraud committed, with respect to the creditors of France; not so much, I think, from any intrinsic defect in the Mississippi scheme, as from the distress the nation was thrown into, by the ignorance of those who over-ruled John Law in conducting it.

We have seen how the actions were reduced to the number of 200,000; we must now give an account of the deplorable fate of the bank-notes.

By the *arrêt* of 10th of October 1720, all bank-notes were entirely suppressed; and it was declared, that after the 1st of December following, they were to have no course whatsoever. Here

Here follows the arrangement of this great affair, viz. the liquidation of 2,696,400,000 livres of bank-notes as regulated by this *arrêt*.

1 ^{mo} ,	Of the above total of notes coined,	
	there remained in the bank at that time,	
	for - - - - -	707,327,460 livres.
2 ^{do} ,	Subscribed for at $2\frac{1}{2}$ per cent. in	
	June 1720 - - - - -	530,000,000
3 ^{tio} ,	Carried to the bank by private people	
	as a fund of credit there	200,000,000
4 ^{to} ,	Paid in coin by the bank	90,000,000
		1,527,427,460

This sum of notes was ordered to be burnt by the *arrêt* of the 10th of October.

The remainder still in the hands of the public, says the *arrêt*, was to the amount of 1,169,720,540 livres, and the King declares, that the holders of them might employ them as follows:

1 ^{mo} ,	In purchasing the remainder of the	
	subscription of 25 millions of rents on	
	the town-house of Paris, at $2\frac{1}{2}$ per	
	cent. inde - - - - -	470,000,000 livres.
2 ^{do} ,	In purchasing a farther sum consti-	
	tuted on the town-house of Paris, of	
	8 millions of perpetual annuities, at	
	the rate of 2 per cent. or at the 50th	
	penny - - - - -	400,000,000
3 ^{tio} ,	In purchasing a farther sum consti-	
	tuted on the town-house of Paris, of	
	8 millions of life-rent annuities, at 4 per	

<i>cent.</i> or at the 25th penny	100,000,000
These sums amounted to	970,000,000
Sum above - . . . -	1,527,327,460
Together - . . . -	2,497,327,460

There still remained outstanding about 200 millions of bank - notes.

These were ordered to be disposed of in several different ways, mentioned in the *arrêt* of the 10th of October; which it would be needless to mention, as it would require a long explanation to make the thing understood: let it suffice that there was an outlet provided for them, which brought in between 2 and 3 *per cent.*

Thus we see the conclusion of the whole affair.

At the beginning, the King's debts stood at 2000 millions capital, and 80 millions interest very ill paid.

At the end of the scheme there had

been coined of notes about - 2696 millions.

Of which in the bank, October 10,

1720 - . . . - 707 mil.

And paid in coin 90

This subtracted . . . - 797 millions.

There remained outstanding in

bank - notes * - . . . - 1899 millions.

* There are, however, in France at this day, many persons who are still in possession of large sums of those notes. This makes some people believe, that all the paper was called down without any equivalent given. The reason of those notes remaining, is, that either the proprietors neglected the occasion offered by the *arrêt* of the 10th of

Add to this 100 millions still due
by the King to the company for
the *billets d'état* withdrawn in
constituting the first 200,000 ac-
tions which still subsisted, and
for which the company was to
receive 5 per cent. - - 100 millions.

So the capital of the King's debts
remained at - - - 1999 millions.

Balance gained by the whole ope-
ration - - - - 1 million.

Consequently there was little or no
fraud as to the capital - 2000 millions.

Let us next examine the state of interest.

The interest at the last was,

1^{mo}, Of rents constituted in June
1720, on the town-house, at 2 1/2
per cent. or at the 40th penny 25 millions.

2^{do}, Ditto of the 10th of October
1720, at 2 per cent. or at the
50th penny - - - 8 millions.

3^{tio}, Ditto at ditto upon lives at 4
per cent. or at the 25th penny 4 millions.

4^{to}, Due to the company upon the
original stock of 100 millions still
paid them at this day at 5 per cent. 5 millions.

5^{to}, For the 200 millions of credit

October, or that they were in hopes that perhaps the
bank might again recover its credit. They were mistaken,
and the notes are lost.

at the bank, suppose at the rate of 3 <i>per cent.</i> - - -	6 millions.
6 ^{to} , For the last 200 millions pro- vided for in different ways, sup- pose at 2 $1\frac{1}{2}$ <i>per cent.</i> - -	5 millions.
7 ^{to} , Allowed to the company to indemnify them for the loss they sustained by these arbitrary ways of reckoning with them, 80 mil- lions at 5 <i>per cent.</i> still paid them	4 millions.
	57 millions.

The interest at first was 80 millions

The interest at last was 57 millions

Defrauded by the scheme 23 millions a year.

This is (as near as I can guess at it) the state of
the French bankruptcy in 1720.

The creditors were *robbed* of 23 millions a year.
I call it *robbed*, because the interest due to them
was diminished by that sum, without their consent,
and in consequence of the most arbitrary proceed-
ings; whereas, had the system been conducted with
ability, the whole of the debts would have been
brought to an interest of 48 millions, instead of 57,
and no body would have complained of injustice.

Money likewise might have been brought to 2
per cent. The 1600 millions borrowed of the com-
pany at 3 *per cent.* would then have been reduced
to two; which would have brought the 48 mil-
lions of interest, upon the whole, to 32 millions:
and France, from being reduced to beggary by
the King's wars, would have become the most
flourishing state in Europe.

Let us next guess at what may reasonably be supposed to have been the largest sum of coin ever collected in this bank.

I imagine that the far greater part of all the coin supposed to be in France during the Mississippi scheme, remained in private hands, without ever coming into the bank. My reason for being of this opinion is,

Law never could have had more than the value of his original stock, and all the value of notes he had in circulation.

It is absurd to imagine he ever should have had the half, or near it; but let me suppose it,

The bank-stock was	-	-	6 millions.
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The notes he issued were	-	-	59 millions.
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In all	-	-	-	-	65 millions.
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This is a trifle compared with 1200 millions.

Next for the united bank. The time at which the greatest quantity of coin was collected, must have been when all credit failed, that is, on the 21st of May 1720.

At that time coin was taken out of commerce: every one was forbid to have above 500 livres in possession; and every operation had been used to call it in.

At this time, we know that all the notes coined were issued, except to the value of 461,316,410 livres.

Now we have seen that on the 10th of October following, there were in the bank to the value of 207,327,460 livres.

Let me, therefore, suppose, that from the 21st of May to the 10th of October, the bank paid away in coin, the difference between these two sums; to wit, - - - 246,011,050 livres

Add to that sum what was

then in the bank, viz. 90,000,000

Sum - - - - 436,011,050

This sum is all we possibly can suppose to have been in the bank on the 21st of May, when credit failed.

We must reckon this sum of coin at 82 livres 10 sols *per* marc, the then value; which makes about 8,146,600 *l.* sterling. A large sum, no doubt; but little more than $\frac{1}{5}$ of 40 millions sterling, the value of 1200 millions of livres, at 60 to the marc, as has been said. Consequently, either those 40 millions sterling were not then in France, or the greatest part of the sum had remained in private hands during this whole operation.

In this light I see the Mississippi scheme. I may, no doubt, be mistaken in many things: the lights, or rather the glimmerings, by which I have been conducted through this inquiry, must plead my excuse.

But it is not so much facts as principles, I have been investigating through this whole disquisition; and the imperfect account I have been able to give of the *former*, will at least point out, I hope, the notions which the French nation, at that time, had of the *latter*. If the contrast between French principles, and those I have laid down, tend to

cast any light upon the subject of paper credit in general, my end is accomplished: if they ever prove of use to mankind, I shall not think my labor lost.

C H A P. XXXIII.

Why Credit fell, and how it might have been supported.

I SHALL now make a few general observations upon the total and sudden fall of credit in France in May 1720: and I shall suggest the means by which, I think, it might have been sustained, even after all the preceding mismanagement.

Was it any wonder that the French should be astonished at this prodigious revolution, at this immense value of paper on the 21st of May, and at the total discredit of every bit of it the day following?

If there was a value, said they, what is become of it? If there never was any value, how could a nation be so deceived? This phænomenon has puzzled many a head; but the nature and principles of credit furnish an easy solution of it.

In deducing the principles of credit, we have shown *that a permanent and well secured fund of interest is always equal in value to a corresponding capital.*

The difference between a *permanent* and well se-

secured fund, and a *precarious* and *ill secured fund*, consists in this, that the first never can disappear, and the other may.

Now the fund, in this case, was at first *real* and did exist; but it was rendered precarious, by a blundering administration: then credit failed, and in that convulsion, the fund of interest was fraudulently diminished by an act of power.

Had the true principles of credit been understood in France, the bank-notes and actions might have been supported, even after the *arrêt* of the 21st of May; and all the monstrous value of paper, raised so high by the low rate of interest, might have been preserved: consequently that value, in capital, *really existed* relatively to the rate of interest.

As the object of the present disquisition into the principles upon which the Mississippi scheme was conducted, is only intended as an illustration of the principles of credit in general; I shall first account for the wonderful phænomenon above mentioned, and then show how, in the greatest of all the French distresses, their credit might have been re-established in a more solid manner than ever.

As to the wonderful phænomenon of the prodigious *wealth* created by the system, and annihilated in one day, I answer, that there had been no creation of wealth at all, except in consequence of the fall of interest.

imo, We have seen that at the death of the late King of France, the interest of his debts amounted to 80 millions. Was not this a fund which ought to have been made solid and permanent? Will any

man say, that a regular plan of paying this interest was a means of creating new wealth? Certainly not.

2^{do}, These debts were secured by *contracts of constitution of annual rents upon the town-house of Paris*: a security taken in the name of a peculiar creditor, which requires a form of law to transfer.

By the scheme we have been explaining, all these securities were changed: and instead of constitutions of rent, bank-notes, in which the King was equally debtor, were given.

Will any man say, that this was the means of either increasing or diminishing the wealth of France? Certainly not. A man who has a good bond in his pocket is as rich before it is paid with bank-notes as after: but he has not so much money in his hands; because the bond is not *money*, and the notes are.

3^{tio}, We have said that the interest of the King's debts amounted to 80 millions a year, at 4 *per cent*.

We have seen how the company of the Indies were provided with a fund equal to this sum, arising from the 48 millions which the King paid for the loan of the paper with which the debts were to be paid, and from many other lucrative branches of revenue; which instead of being burdensome to the King, were, on the contrary, a means of augmenting his income, by the advanced rent the company gave for the different farms which produced them.

Had the public creditors, therefore, vested their claims in actions, they would, in consequence of that operation, have become sharers in the fund of

80 millions a year, administered by themselves (and they would then have been the company) open to be improved by trade abroad, and by a good administration at home.

Had this system been carried on in a plain easy way, consistently with common sense, the public creditors would have been paid; the King's revenue augmented; and it would have been put under a good and a cheap administration.

But when, by the absurd operations of changing the denominations of coin and paper, and wantonly playing with every man's property, the creditors saw themselves standing on the brink of a precipice; and finding, instead of a good contract on the town-house of Paris, a bank-note put into their hands, which might be diminished in its value by one half every month, while at the same time the coin might be raised to double, it was very natural to suppose, that the intention of the King's ministers was to withdraw from them totally these 80 millions, less or more, to which they were entitled: in which case, there was an annihilation indeed of all the notes; but there was no annihilation of wealth: for in that case, the wealth was still the same, only it was transferred from the creditors to the King the debtor: that is, the creditors were defrauded.

On the other hand, stood the proprietors of the actions sold. These were in use to make a traffic of buying and selling the 200,000 actions which had been in their hands ever since September 1717, when they were first created. For we have shown, that

the posterior creation of actions by the united company, was a mere delusion, as they were all found in the custody of the Regent. The actions, I say, were immediately put into a state of stagnation; because of the discredit cast upon the bank-notes, with which it had been usual to buy them.

5^{to}, I must observe, that the stagnation of a paper which carries no interest, is equal to a temporary annihilation. The holder then is deprived of the use of his money; and he is not paid for the loss he sustains.

If, therefore, it had been possible to have given a new activity to this bank-paper, without allowing it to die away, as it were, in this temporary fit of fainting, credit would have revived: all accompts would have been kept clear, for this is the use of paper money, and so short a shock would hardly have been felt.

But the great damage resulting to the public, upon every occasion of this kind, proceeds from the *delay* in applying the proper remedy. When any paper is discredited, it immediately falls in its value. The person then who is the original and real creditor for the whole value, and in whose hands the paper is when it suffers the discredit, sells at discount: this is an irretrievable loss to him; and when the paper recovers its credit again, either in part, or on the whole, the profit then belongs to the person who had bought it at discount, and does not go to indemnify the real sufferer.

This was the case with respect to the notes of the French bank: they were allowed to languish

from the 21st of May that they were discredited, until the 10th of October, when their fate was decided, as has been said.

Farther, we have seen, that this whole movement of credit had for its basis 80 millions a year, originally paid to the creditors for their interest. This sum answered to the capital of 2000 millions; because at the old King's death, interest was fixed at 4 *per cent*.

When, by the operations of the system, all this capital was turned into money, that is, bank-notes, the regorging plenty of it made interest fall to 2 *per cent*. consequently, the capital, which constantly draws its value from the interest paid for it, rose to 4000 millions. We have said that the total value of the paper rose to 6000 millions; but we must reflect, that above 2000 millions of these 6000 millions was in bank-notes, and employed in buying of actions. So that both the notes and the actions must not be reckoned as existing together.

Had the Regent sold the actions, he would have burnt 2000 millions of bank-notes, and thus the value in paper would have remained at 4000 millions, so long as interest remained at 2 *per cent*; and had interest fallen still lower, and dividends remained at 200 livres *per action*, the value of actions, and consequently of this capital of 4000 millions, would have risen in proportion, just as the value of the capital of the debts of Great Britain rises and falls according to the rate of money; although the same sum of interest be paid to the creditors at all times.

This augmentation, therefore, upon the value of

all capitals, during the Mississippi, of lands as well as actions, was in consequence of the fall of interest, and from no other artifice whatever. Lands in France, at that time, sold at 80 and 100 years purchase. [Dutot, Vol. II. p. 200.]

When credit failed, and when all the circulating paper was thrown into a state of stagnation, interest rose, in proportion to the deficiency of the supply for the demands of borrowers. The value of capitals then diminished. But this might have happened from another cause, had there been no bankruptcy, or intention to defraud creditors: a war might have produced it; or any circumstance which might have raised the rate of interest.

The rise, therefore, upon capitals, from the fall of interest, I consider here as no acquisition of wealth: I reckon wealth to be that which is the annual produce of the capitals.

So much for the resolution of this wonderful phænomenon.

I must now show that in the height of the distress, the confidence of the public was still to be regained, and credit recovered, even after the fatal *arrêt* of the 21st of May 1720.

I lay it down as a principle, *that whoever has a sufficient fund, and pays interest regularly for the money he owes, runs no risk of losing his credit.*

So soon, therefore, as the Regent found that by his *arrêt* of the 21st of May, all credit had disappeared; had he, upon the 27th of the same month, or at the time he raised the coin to 82 livres 10 sols *per marc*, ordered all bank-notes pre-

presented to the bank, either to be paid in coin, or marked in the books of the bank as bearing interest at 2 *per cent.* I say, credit would not have suffered in any comparison to what it did. No body then would have sold a note at discount; and had it been necessary, he might have ordered the interest to be paid monthly.

The authority I have for this opinion is Dutot, who says, that upon opening the subscription of 25 millions in the month of June, the notes fell in their value 11 $\frac{1}{2}$ *per cent.* only.

Now the rate of this subscription was at 2 $\frac{1}{2}$ *per cent.* as we have seen; consequently, if 100 livres of notes lost but 11 $\frac{1}{2}$ *per cent.* they were worth 88 $\frac{1}{2}$ livres in coin; but these 100 livres in notes were worth 2 $\frac{1}{2}$ *per cent.* because the subscription was open at that rate: consequently 88 $\frac{1}{2}$ livres in coin was also worth 2 livres 10 sols *per annum*: consequently interest, at that time, was at 2.825 *per cent.* that is, below 3 *per cent.* even after the bankruptcy.

Where then was the great harm? Where was the occasion to fly immediately to the destruction of actions, which were in the Regent's own hand? A little patience, and good management, would have set all to rights.

I would, therefore, have left the notes in circulation under this regulation, viz. that such as should be presented to the bank, should have had a transfer of 2 *per cent.* paid quarterly; or a value, in actions, at 10,000 livres *per action*, which is the capital answering a dividend of 200 livres at 2 *per cent.* at

the option of the holder: and in case interest had come to fall still lower, the price of actions might have been augmented.

I would have set before the public a full and exact account of the company's funds. I would have banished all mystery from the affairs of credit. I would have registered a declaration in parliament, setting forth,

1mo, That all future changes either upon the denominations of paper or coin, were contrary to the maxims of good government.

2do, That all stipulations between the King and his creditors were to be inviolable. And,

3tio, That the parliament of Paris should for ever remain invested with an exclusive right to watch over those regulations in time to come; and I would have bound the parliament by a special oath for that purpose. I would even have had the King to take the same oath: and he might have ratified it at his coronation in 1725.

By these steps I should have vested a new power in the Kings of France which they never had before: a power of having money from their subjects, from their allies, and from their enemies: a power they have not, nor ever will have, until the principles of credit be better understood among them.

Had such a plan been followed, I have not the least doubt, but that, 1. The actions would have been sold at a very great advanced value above the standard of 5000 livres, at which the Regent had bought them: 2. That money would have come back to 2 *per cent.* and then, 3. Had banks been

established upon a proper plan, ease, with industry, would long ere now have appeared in every corner of that kingdom.

How infinitely more easy would it have been to establish such a plan in 1720 than at present? At that time the most difficult part of the whole was executed. The creditors had taken notes for their claims: the credit then was given. There was nothing to be done but to support it. The creditors were then at the mercy of the state: at present the state is at the mercy of the creditors. Were such operations on coin to take place at present, as were then familiar; were the King at present to attempt to turn the constitutions of rent, perpetual and life-annuities, into any other form than what they have, the credit of France would be undone for a long time; and who knows what views of ambition a situation so deplorable might not stir up in certain courts of Europe.

What state would pay its debts, if it *durst* do otherwise? And what state can diminish its debts in any other way than by lowering the interest upon them? But of this more in the proper place.

C H A P. XXXIV.

How the diminishing the Denomination of the Paper in Circulation, by the arrêt of the 21st of May 1720, destroyed the Credit of France, when the same arbitrary Measures taken, with regard to the Coin, had produced no such Effect.

THIS question is curious, and I shall endeavour to resolve it in the best way I can, before I conclude this subject.

The first thing to be done is to point out the immediate effects which resulted upon diminishing the denomination of the paper; because the destruction of the credit of France was not the immediate consequence of this *arrêt*; but the ultimate effect of a chain of consequences which followed indeed very quick upon one another.

The paper had been declared, against the opinion of Mr. Law, by an *Arrêt de Conseil* of the 22 of April 1719, *une monnoie fixe*, as has been said. Consequently, any diminution of its denomination was a plain infraction of the public faith. From this declaration in the *arrêt* of the 22d of April 1719, the public reaped one notable advantage, which was, that in borrowing and lending paper, every one was sure that the obligations contracted could be dissolved by restoring the very same species of property which had been received; but by diminishing the denomination of it, by the *arrêt* of the 21st of May 1720, all such as were debtors, became obliged to discharge their

debts at the expence of double the sum of paper borrowed.

The immediate consequence, therefore, of touching the denomination of the paper, was, to show the public that their fortunes in paper were liable to the same inconveniences as fortunes in specie; that is, that they might be increased or diminished at pleasure. Upon this it was very natural for every one to endeavour to realize his paper, and put it into coin: since, *in pari casu*, it was better to have it in that which had some intrinsic value, than in that which had none at all.

Of all the French paper, the notes were the most easily realized; because there was contained in them a direct obligation upon the bank to pay them in coin. The actions again were more difficult to be converted; because in order to realize them, it was necessary to find people who were willing to give either notes or coin for them.

A run upon the bank, therefore, taking place, upon the *arrêt* of the 21st of May, it was obliged to stop payment: this occasioned a general alarm, and *destroyed the confidence which the public had had in the state*, which is what we mean by *public credit*.

This point explained, it remains to show why the augmentations and diminutions upon the specie should not have ruined the credit of the paper.

1mo, The operations upon the specie affected the paper only indirectly; but the diminution upon the paper affected it directly.

The operations upon the specie only affected that part of the paper which was made to circulate as an

equivalent for the specie; or in other words, that part which people realized, either, 1. with an intention to withdraw their funds altogether out of the scheme; or 2. to profit of the operations upon the specie; or in the last place, to procure small sums of money for common expenses.

Now as to the first, the number of those who wished to withdraw their stocks were inconsiderable, in proportion to the stock-jobbers; and therefore their interest could not affect the general credit; and the last was inconsiderable in every respect.

As to the second, the government made it very difficult for the proprietors of notes to profit of the operations upon the coin. When it was to be diminished, the diminutions were advertised some time before they took place, and the diminution went on always by degrees. Thus people who had paper, with which they could trade in buying actions, constantly rising in their value, by the intrigues of the state, when at the same time the denominations of the coin were diminishing, did not carry their notes to the bank for two reasons.

The first, that the paper really gained by every diminution upon the denomination of the specie, in an exact proportion to the diminution. A livre in a bank-note, while the specie was diminishing by intervals from 80 livres the marc to 65 the marc, gained regularly in the hands of the possessor; whereas had he realized at any period but the last, the subsequent diminutions upon the specie he had acquired with his paper would have affected the value of it.

The second was, that by realizing he deprived himself of the profit of stock-jobbing.

The only way, therefore, for the proprietors of the paper to gain by the operations of the state upon the coin, was to guess the time when the coin was to be raised in its value: but this was impossible; for the rising was sudden and unexpected; whereas notice was constantly given of the fall, at some distance of time.

For example, the money was suddenly raised the 5th of March 1720, from 60 livres to 80 livres the marc; and the 11th of the same month, notice was given, that on the 1st of April following, it was to be brought down again to 70 livres *per* marc; and on the first of May following, to 65 livres. The consequence of this was, that from the 11th of March, people were glad to carry money to the bank for notes, which were to stand at the same denomination, whereas the silver was to diminish on the 1st of April.

Accordingly a great sum, above 44 millions, was brought in during this interval.

When the 1st of April came, and that the silver was brought to 70 livres the marc, those who were in possession of the paper, were still prevented from realizing; because of the future diminution which was to take place. When this term was come, people had reason to imagine that the silver would for some time stand at 65 livres the marc; consequently, there was more to be gained in stock-jobbing with the notes, than in realizing them in specie, which, in order to make profit of it, must have lain dead until

a new augmentation; which was a very uncertain event. In short, there was no run upon the bank from the 1st to the 21st of the month of May, when the famous *arrêt* in question was given. Then indeed the run came on with violence, and payment was stopt.

2do, The second reason why the effects were different when the state changed the denomination of the coin, from what they proved to be when the denomination of the paper was changed, I take to be this,

That in France the operations upon the coin had been familiar; and were expected by every body: and, perhaps, the very making the paper a *monnaie fixe*, had for this reason added to the credit of it. A most surprising thing! The state took care always to gain, whether they raised, or whether they diminished the value of the coin. The stock-jobbers, therefore, never minded the coin at all. If they could profit by an augmentation by foreseeing it, they realized; if they could see a diminution before notice was given of it, then they bought paper.

The operations on the coin principally affected such as were either respectively debtors or creditors, to people who were obliged to pay, or to receive their debts in specie; or who had a fixed revenue specified in a number of livres. There the disorder was great, as has been frequently observed.

3tio, The operations upon the specie never could destroy the intrinsic value of it, however they might prevent the circulation of it for a fixed legal denomination; therefore it remained under all combinations

of circumstances, a thing valuable to be acquired; and it still remained a commodity, desirable by all, and was therefore constantly demanded.

But a discredit cast upon the paper had a different effect. The value *there* depended entirely upon the will of the state, and every body saw that it was as easy to annihilate it, as to reduce it to one half. The discredit, therefore, had the effect of stopping *the demand for it*, that is, the currency; consequently, a run upon the bank immediately took place.

4^{to}, The rendering the value of the paper precarious, made every possessor of it seek to realize it without delay. The proprietors of the bank-notes ran to the bank; and a run upon the bank, at a time when it could offer payment for the notes in no other value than actions, was a declaration of bankruptcy. Now it was the run upon the bank; it was this claim which the subjects had a right to make upon the bank, for which the King was guarantee, which destroyed the credit of France; and it is very evident that no operation upon the specie could possibly produce any such effect *.

In short, had this operation upon the paper been suspended for a few months; had the people of France

* It was a capital mistake in this diminution upon the paper to make it gradual. Was it not evident that every mortal would seek to realize a note which was to diminish in its value progressively every month? A note worth 10,000 livres, for example, the 22d of May, was immediately reduced to 8000 livres, and the 1st of July, was to be worth only 7500. This was plainly soliciting a run upon the bank. The stroke should have been struck at once.

been indulged in a little more time, their infatuation in favor of the actions would have carried them to employ all their bank-notes in the purchase of those which remained in the hands of the state. By this operation the far greater part of the notes might have been withdrawn and destroyed, and when the bank found themselves in a situation to answer the call of all those which afterwards remained in circulation, then the state might have boldly ventured to diminish the price of actions: because if that stop had occasioned a run upon the bank for the outstanding notes, there would have been coin enough to answer them at their full value; and this would have confirmed the credit of the bank more than any thing.

C H A P. XXXV.

How a Bank may be safely established in France, as Matters stand at Present.

THE prerogative of the Kings of France is limited by no written law, because he is acknowledged to be the legislature of his kingdom; and the exercise of his power is only limited by maxims of state. The first of which is, that he is to govern according to his laws, and not according to his ambulatory will.

Now, in making of laws, the parliament have a sort of negative, *de facto*; because the whole regular and legal execution of every law is committed to them: and if they refuse to register it, they refuse to execute it; and a law without *execution* is, in fact, no law at all.

When the King's will can be carried into execution by a single act of power, the authority of parliament is of no effect in preventing it. When this requires a train of systematical administrations, the concurrence of parliament, who hold the whole regular execution of the laws, is absolutely necessary.

Banks of deposit and of circulation, stand, it must be confessed, upon a very precarious footing, under such a government.

An order from the King is at any time sufficient to command any deposit of specie which can be made within the kingdom. While this is the case, no paper can have any solidity, which draws its security from such deposit.

Coin, therefore, must be banished from all banks in France: and the use of them should be entirely limited to that of an office, for the keeping of reckonings between people who have solid property, and who may want, on a thousand occasions, to melt it down in favor of consumption, trade, industry, agriculture, or the like.

In this light, a general bank may be established at Paris; and branched out over the whole kingdom. The stock of it should consist in land property, engaged unalienably, to make good the engagements of the bank.

Notes should be issued upon solid security, bearing no interest while they circulate as money; and when they return upon the bank, either the original securities may be withdrawn, or payments might be made by the transfer of a corresponding perpetual interest.

Every province, every considerable city in the

kingdom, should be allowed to be interested in such a bank: and in every considerable city, there should be an office for transacting such credits, and for regularly receiving all payments of interest. If the King should think fit to allow his mint to supply coin, or bullion, for bank-notes presented, at a determinate premium, he might by this operation advance the commercial interests of his kingdom, in facilitating the payments of a wrong balance of foreign commerce: but without that regulation, the bank will be perfectly sufficient for promoting and supporting domestic circulation. Every one who is able to give security for a certain interest, will be sure to find money: and as the expense of conducting such a bank will be very small, the interest for money will be very low.

As I said before, a bank of this kind would be no more than an office, appointed for keeping accounts between people who are possessed of any paper secured upon real and solid property: and farther, in the beginning, at least, I would not advise to carry it.

The general accompt of the bank would appear in a few articles, viz. Credits given, so much; *inde* of interest to be received, so much.

Notes returned, so much; *inde* of interest to be paid, so much; balance in favor of the bank, so much.

A bank of this nature would answer every purpose for promoting industry and domestic circulation.

Such a bank must neither issue, or ever receive coin in payment.

C H A P. XXXVI.

Of Banks of deposit and transfer.

INOW dismiss the subject of banks of circulation. The unspeakable advantages drawn from this institution, when properly regulated, in supplying money at all times to those who have property, for the encouragement of industry, and for improvements of all sorts, and the bad consequences which result to society, from the abuse they are exposed to, has engaged me, perhaps, in too long a discussion of particular combinations of circumstances relating to them.

I now come to treat of banks of deposit or of transfer of credit: an institution of the greatest utility for commerce.

These two species of banks differ essentially in two particulars.

1mo, That those of circulation serve the purpose of melting down unwieldy property into money; and of preserving the quantity of it at the proportion of the uses found for it. Those of deposit, are calculated to preserve a sum of coin, or a quantity of precious moveables, as a fund for carrying on the circulation of payments, with a proportional value of credit or paper money secured upon them.

2do, In the banks of circulation, the fund upon which the credit is built, is not *corporeally* in the custody of the bank; in the other it is.

The fundamental principle, then, of banks of

deposit, is the faithful preservation of the fund delivered to the bank, upon which credit, in money, is taken for the value.

If at any time a bank of deposit should lend, or should, in any wise, dispose of any part of this fund, which may consist of coin, bullion, or any other precious moveable, once delivered to them, to the end that a credit in money may be writ down for it in their books of transfer, in favor of the depositor, and his assigns; by that act, the bank departs from the principles upon which it is established. And if any bank is established which, by their regulations, may so dispose of the fund of their credit then such a bank becomes of a mixed nature, and participates of that of a bank of circulation.

These things will be better understood by reasoning from an example of a true bank of deposit.

C H A P. XXXVII.

Of the Bank of Amsterdam.

MANY authors have written concerning this great bank of deposit: particularly, Davenant Sir William Temple, Ricard, in his *Traité de Commerce revu par Struyk*, the author of the *Essay sur le Commerce*, and Mr. Megens, in his book, which has been translated into English, under the title of *The Universal Merchant*.

In these authors we find a number of facts, which I shall combine with my own informations, and

here apply principles to them; in order to communicate a distinct idea of this establishment. A detail of its particular operations regards practice, and falls not within my subject.

The original intention of the States of Holland, in establishing the bank of Amsterdam, was to collect a large capital in coin within that city, which might there perpetually remain, buried in a safe repository for the purposes which we are now to explain.

In order to accomplish this plan, they established the bank upon the 31st day of January 1609.

The method they fell upon to collect the coin, was to order, that all bills of exchange, for any sum exceeding 300 florins, should be paid in specie to the bank; and that the holder of such bills should, instead of receiving the coin, have the value of it writ down in the books of the bank to his credit, at his command, to be transferred to any person he should appoint; but never more to be demandable from the bank in specie.

By this operation, the mass of coin circulating constantly from hand to hand, between the merchants of Amsterdam, began, by degrees, to be heaped up in the bank; and as the heap augmented, so did the sum of credit augment upon the books of the bank.

It is evident, from this change in the mode of circulation, that no loss could be incurred from the locking up of the coin.

As long as coin is in a state of constant circulation, it can produce no interest to any person.

Interest commences from the moment the coin begins to stagnate; that is to say, so soon as it comes into the hands of one who has no ready money demand upon him. When this happens the proprietor lends it at interest.

Now the credit in the books of the bank, which is every day transferable at the bank, answers every purpose of coin, either for *payment* or *loan*: and the proprietor has neither the trouble of receiving the species, nor any risk from robbery, or false coin.

The first advantage the city reaped from this institution, was, to secure the residence of trade in that place.

Capitals transferable only at the bank, laid the proprietors under a necessity of fixing their dwelling where their funds were, and where only they could be turned to accompt.

It had another excellent effect in commerce: it pointed out the men of substance. A credit in bank is no wise equivocal: it is a fund of undoubted security.

From the constitution of this bank we may form an estimate of the extent of the deposit.

It can only swallow up a sum equal to what is necessary for circulating the payments of the city of Amsterdam. Were a sum exceeding that to be shut up in the bank, and were the credits written in the books of the bank to exceed that proportion, it is plain, that the value of the bank-money would sink immediately. The reason is obvious: the credits transferable are of no use to those who have no

occasion to transfer ; that is, to pay, lend, or exchange at Amsterdam. So soon, then, as all the demand of Amsterdam is satisfied the proprietors of the overplus will seek to realize their superfluous credit, in order to invest the value arising from it, in some other place where a demand may arise.

In order to realize, they must sell their bank-credit for coin ; because the bank pays only in transfer. Coin then would be demanded preferably to credit in bank ; consequently, coin would rise in its proportional value to bank-money, or bank-money would lose, which is the same thing. This fluctuation between bank-money and coin, leads me to explain what is called the agio of the bank.

C H A P. XXXVIII.

Of the Agio of the Bank of Amsterdam.

WE have pointed out one motive for establishing a bank of deposit at Amsterdam, viz. that of fixing the residence of trading men in that city.

Another was, to prevent the inconveniences to which a small state was exposed, by the introduction of bad coin, from all the neighbouring countries in Europe, with whom they traded.

In the territory of Holland there are no mines of gold and silver ; consequently all they have comes from other countries, as the return of a favorable balance upon their commerce.

At the time the bank was established, the republic

was in a state of infancy; and any coin they had, was that of their old masters the Spaniards. This was unequally coined; many pieces were light; many had been clipped and washed. As they extended their traffic, they were obliged to receive great quantities from Germany, which was still worse.

In order then to prevent the circulation of such coin, and the perplexities occasioned by it in all accounts, they established a bank, and fixed the standard upon a silver coin called the ducatoon, to which they gave the denomination of 3 florins or guilders bank money.

But as this coin also was unequal, like all the rest of the specie in Europe, before the introduction of milled coin, and the policy of weighing piece by piece at the mint, the bank appointed the ducatoons to be received in bags of 200 pieces, weighing together 26 marcs 5 ounces 10 engles of Amsterdam troes, or gold weight; which being reduced to aces, (the lowest denomination in this weight) make 136,640 aces. This divided by 200, gives, for the weight of 1 ducatoon, 683.2 aces.

Let us now convert these aces into troy grains, according to the proportion established between Dutch aces and troy grains, in the last chapter of the third book.

The equation will stand thus.

5192.8 aces, being equal to 3840 troy-grains,
683.2 aces, therefore, will equal 505.2 troy-grains;
which, consequently, is the weight of a ducatoon,
or of 3 florins bank-money of Amsterdam.

Next as to the fineness of this coin:

The ducatoon was coined, according to the imperial standard, of 14 loots 16 grains fine: that is to say, it is $\frac{2^6 8}{288}$ parts fine, and $\frac{20}{288}$ parts alloy.

To find, therefore, the number of Hollands aces, and of troy grains of fine silver in the ducatoon, state the two following proportions:

$$288 : 268 :: 683.25 : 635.75 \text{ aces fine.}$$

$$288 : 268 :: 505.21 : 470.13 \text{ troy-grains fine.}$$

In the last place, if we divide the number of aces, and troy grains fine in the ducatoon, by 3, we shall see the exact weight of fine silver in 1 florin of Amsterdam bank-money.

$$\frac{2^3 5 7 5}{3} = 211.91 \text{ aces, and } \frac{4 7 0 1 3}{3} = 156.71 \text{ troy-grains fine.}$$

These calculations premised, it would be an easy thing to fix the exact par of the metals, between sterling and bank-money of Amsterdam, were the British coin of legal weight, and were the metals there rightly proportioned. But is it to be supposed, that any person who has bank-money of Amsterdam, would exchange, at the par of the metals, with sterling silver, which is many *per cent.* too light, or against English bank-notes paid in gold, always over-rated with regard to the silver, and often too light also?

While, therefore, the coin of Great Britain stands upon the present footing, all calculations of the par of exchange, as it is commonly computed, upon the intrinsic value of the coins of other nations, must be delusive and of no utility whatever.

For the sake of giving an example, however,
here

here is the real par of the two currencies, upon silver sterling coin of full weight.

One pound sterling should contain, as has been said, of fine silver 1718.7 troy grains, and contains 240 pence sterling: state, therefore, the following proportion, and you will find how many pence sterling one florin of Amsterdam banco should be worth.

$$1718.7 : 240 :: 156.71 : 21.883.$$

Thus 21.883 pence sterling is exactly the real par of an Amsterdam florin banco, supposing sterling money to be silver, at the full weight.

The florin bank-money being regulated upon the ducatoon, an old species not now coined, the fineness of the silver was determined; and the weight of the 200 ducatoons being determined also, this regulation determined the weight of single pieces, and fixed the standard of the florin banco, in weight and fineness.

The current money in Holland, coined by the state, is the florin of 200.21 aces fine, as we have seen in the last chapter of the preceding book.

So soon as the state coined their current florins at 200.21 aces, it is evident, that the ducatoon, which contains three times 211.91 aces, must rise in its value. Accordingly, the piece which was in bank-money, 3 florins, became 3 florins 3 stuivers current money.

This difference is what is called the agio of the bank of Amsterdam.

From this it appears, that the advanced value of the bank-money above the current money of

Holland, is not owing to the great credit of the bank, as some imagine, but to the superior intrinsic value of the coin upon which the standard of the bank-money is fixed.

Let us next determine the exact difference between the bank and the current money, which difference I shall call the *intrinsic agio* : for this purpose state this proportion ;

$$200.21 : 211.91 :: 100 : 105.84$$

From which it appears, that the bank-money is 5.84 *per cent.* intrinsically better than the current money of Holland.

We have seen in the chapter referred to, in what a confused state the Dutch coin is at present, and how it becomes a science to comprehend any thing concerning it. For this reason it is, that the regular agio of the bank-money of Amsterdam is always supposed to be 5 *per cent.* Farther,

The ducatoon, upon which it is regulated, passes for 3 florins 3 stuivers, which is just 5 *per cent.* better than 3 florins, at which it was rated when the bank was established; but most of the coins which circulate are light.

Those who conduct the affairs of the bank, have now lost sight of this original coin, which is rarely found circulating, in considerable sums; and they consider the florin according to its intrinsic worth of 211.91 aces of fine silver; and as the value of silver varies, they publish regulations for receiving coin, such as Spanish dollars, French crowns, &c. according as they find the proportion of their worth in bank-money: and compounding the value of gold

with the value of silver, they make the same regulations as to gold.

I have insisted too long already upon the subtilities of the variations in the proportion between gold and silver, to take it up again in this place. My intention is to explain the principles upon which this great bank of deposit is established, and not to descend into a detail of the mechanism of their adapting the variable coins of Europe to their own standard.

I have said, that the sum of credit, written in the books of the bank, is in proportion to the quantity of bank-money necessary for circulating the trade of Amsterdam.

Consequently, as this circulation increases, the demand for bank-money increases also.

Again; in proportion as the demand for bank-money increases, the *agio* rises; and on the other hand, as the demand for current money increases, the *agio* falls.

Thus we saw in the war *ann.* 1760, 1761, 1762, that *agio* was below 5 *per cent.* The reason was plain. The great circulation carried on in Amsterdam was considerably directed towards the uses of the war. *There* bank-money was of no use; coin only could serve the purpose. Accordingly *agio* fell to — *per cent.* and as gold was much more easily transported than silver, that metal rose 1*½* *per cent.* above the ordinary proportion of 1 to 14 *½*.

Demand regulates every thing; and this demand makes the *agio* fluctuate; sometimes rising above, and sometimes below 5 *per cent.*

C H A P. XXXIX.

*Continuation of the same Subject; and concerning the
Circulation of Coin through the Bank of Amsterdam.*

HITHERTO we have represented this bank as a gulf, which is calculated to swallow up the coin of Europe; without having pointed out any faculty of throwing up a part of the treasure so secured, in case of an overcharge.

This has appeared a mystery to many, and a defect in the constitution of the bank.

But when the principles upon which it is established come to be compared with some branches of their administration, which are publicly known, perhaps the mysterious part may be unravelled. And although I do not pretend to give an entire satisfaction as to every minute particular, I think I can show how, and to what extent, the treasure may circulate, so as to occasion no abuse, either from the hoarding it on one hand, or from the dissipation of it, for the service of the state, on the other: and if all these conjectures shall be found to hang together, and appear consistent with principles, without being contradicted by any known fact, then I may conclude, that such a system of banking as I describe, is at least a possible supposition, whether it exactly coincides with that

of Amsterdam, or not. And who knows but my speculations may enable some person of more knowledge and more sagacity than I am possessed of, to render this curious operation of credit still more generally understood than hitherto it has been.

I have shown how the *agio* rises and falls, according to the demand for bank money.

So long, therefore, as the *agio* does not fall below the difference between the value of the two currencies, it is a proof that all the credit writ in the books of the bank does not exceed the uses for it: consequently, the coin locked up, which never can exceed the credit on the transfer books, and which, were it not locked up, could be of no more service than the credit itself, in circulating the trade of Amsterdam, does not exceed its due proportion: consequently, it is not hurtfully withdrawn from commerce; consequently, no abuse is implied from the hoarding of it.

But let me suppose a case, which may happen; to wit, that for a certain time, the trade of Amsterdam may demand a larger supply of credit in bank, than is necessary upon an average. Will not this raise the *agio*? No doubt. If the *agio* rises so high as to afford a premium upon carrying coin to the bank, upon the footing of their own regulations, this will augment the sum of bank-credit; because the money so carried to the bank, becomes incorporated with the bank-stock; the value is writ in the books of the bank; and when this is done, the coin is locked up for ever.

If then it should happen, that the trade of

Amsterdam should afterwards diminish, so as to return to the ordinary standard, will not this overcharge of credit depress the rate of bank-money, and sink the agio too much below the par of the intrinsic value of the two currencies?

To these difficulties I answer, like one who, being ignorant of facts, which I never could get ascertained by any person in Holland to whom I had access for information, and which remained hid from most people in the deep arcana of Amsterdam politics, must have recourse to conjectures, founded upon natural sagacity.

First then, The city of Amsterdam knows, from long experience, the rate of demand for bank-money; and it is not to be supposed, that upon any sudden emergency, which may *heighten* that demand for a time, they should be such novices as to increase the credit upon their books so far, as to run any risk of overstocking the market with it; especially as, on such occasions, the deficiency of bank-credit might be supplied with coin, constantly to be found in the city of Amsterdam, as we shall explain presently.

Farther, Who will say, that there does not reside a power in the managers of this bank to issue coin for the superfluous credit, in case that, in spite of all precautions to prevent it, a redundancy of bank-credit should at any time be found upon their books?

It is very true, that no person, having credit in bank, can demand coin for such credit; and as no demand of that sort can ever be made, it is

very natural to suppose, that a redundancy of coin and credit can never be purged off.

During my stay in Holland, I was at great pains, to no purpose, to discover whether ever the bank issued any part of their credit cash upon any such occasions. Every one I conversed with was of opinion, that if ever any coin had been taken from the treasure of the bank, it must have been by authority of the states, for national purposes: a step conducted with the greatest secrecy; and the matter of fact, I found, was extremely doubtful. But this is nothing to the present purpose. That the coin may be disposed of, I allow, though I do not believe it; but how is the superfluous credit, writ in the books, to be disposed of? There lies the difficulty.

The popular opinion is, that coin has been taken out for the service of the state: the opinion of many intelligent men is quite contrary.

I am now to give my opinion, not only as to this point, but upon the main question; and this not from information, but from conjecture; which I shall humbly submit to the better judgment of my reader.

My opinion then is, *1mo*, That every shilling written in the books of the bank, is actually locked up, in coin, in the bank-repositories.

2do, That although, by the regulations of the bank, no coin can be issued to any person who demands it in consequence of his credit in bank; yet I have not the least doubt, but *that both the credit written in the books of the bank, and the cash in their repositories which balances it, may suffer alternate*

augmentations and diminutions, according to the greater or less demand for bank-money. If I can prove this, all difficulties will be removed.

My reasons for being of this opinion are,

1^{mo}, From principles, I must conclude, that if, upon any occasion whatever, even when the smallest demand for bank-money, and the greatest demand for coin takes place, there was an impossibility of producing the least diminution of bank-credit, or of procuring any supply of the metals from the bank, the consequence certainly would be felt, by an extraordinary fall in the value of bank-money; or which is the same thing, in other words, by an extraordinary rise in the value of the metals, when compared with bank-money.

Now, this is a case which never happens. Variations upon the rate of *agio*, of 2 or 3 *per cent.* perhaps more, are frequent and familiar. The demands of trade, for coin or credit, are so fluctuating, that such variations are unavoidable; but were there an overcharge of bank-credit, which no power could diminish, that overcharge would quickly be perceived; because the fluctuations of the *agio* would entirely cease; as the balance of a scale, nearly in equilibrium, ceases from a total overcharge on one side.

2^{do}, My second reason is founded upon a matter of fact, which I must now apply.

There are upon the square before the town house of Amsterdam, (the place de Dam) between 10 and 11 in the morning, a number of cashiers, whose business it is to buy and sell bank-credit, for current coin. They bargain with all those who have occasion

either to buy or sell; and according to the demand for specie; or bank-credit, the *agio* rises or sinks: and as these cashiers must constantly gain, whether they furnish bank-credit or current coin, since they are never the demanders in either operation, it is commonly found, that there is in their favor about $1/16$ *per cent.* or perhaps $1/8$ *per cent.* according to the revolutions in the demand: that is to say, one who would first buy specie, and then sell it, would lose $1/8$, or perhaps but $1/16$ upon his operation.

From this circumstance of buying and selling of bank-credit with coin, and *vice versa*, I think I can resolve the mystery mentioned above, viz how the constant accumulation of coin in the bank of Amsterdam, should never have the effect of depreciating their bank-money, by augmenting, beyond the demand for it, the quantity of their deposit, and of the credit written in their books.

It is a matter of fact, that the bank lends both coin and credit to the brokers, cashiers, or lombards, who are constantly found on the place de Dam.

Whenever, therefore, the bank finds that *agio* falls too low, with respect to the coin; and when, in consequence of that, the demand for coin *increases*; then they lend *coin* out of their repositories to the brokers; and when it *rises*, they lend *credit*.

This coin the brokers dispose of to those who have bank-money, and who want to convert it into coin. They sell the coin for bank-credit: the purchaser writes off the transfer in favor of the broker, and he again repays the value of the coin to the bank, by transferring the credit he obtained for the coin, in favor of the bank. |

This done, the bank may expunge this credit from their books: by which means their deposit of coin is diminished, and also the sum of credit which was found superfluous.

If, on the other hand, the circulation of the trade of the city should, in a short time afterwards, begin to increase, those who have coin, which in that case would not so well serve the uses of circulation as the bank-credit, come with it to the brokers, who sell them bank-credit for it; this coin the brokers deliver to the bank, which writes off the credit lent to the broker, in favor of him who has paid his coin for it.

This is, as far as I can guess, the nature of the circulation of the coin in the bank of Amsterdam.

It is a curious method of preserving an exact proportion between the coin in deposit, the credit written in their books of transfer, and the demand for bank-money.

The plan is quite consistent with principles, and checks exactly with those matters of fact which are known to all the world. Whether the operation be conducted exactly in the way I have represented it, or not, is a matter of small consequence to us, who aim at nothing more than the investigation of the principles upon which such operations may be conducted.

When we compare this operation with those of the bank of circulation, which we have already explained, we find a great analogy between them.

We have seen how the notes issued by banks of circulation increase and diminish according to demand: and now we see how the same principle operates in banks of deposit, which issue no coin on

demand. In the first case, the mass of securities, or coin of the bank, is diminished, without the consent of the bank, by the act of their creditors; that is, the holders of the notes. In the last case, the creditors, or persons who have credit in bank, cannot, by their own act, diminish the quantity of the coin deposited, nor of the credit written; but the bank itself, by the help of those interposed persons, the brokers on the place de Dam, is enabled to preserve an exact balance between bank-money and the demand for it; augmenting it as it is demanded, and diminishing it when it is found to regorge.

From this I conclude, that the treasure of the bank of Amsterdam is not near so great as some authors, from mere conjecture, have asserted.

The author of the Essay on commerce, reckons it at four hundred millions of guilders; and the Amsterdam edition carries in the margin a correction, which gives us to understand, that it amounts to between eight and nine hundred millions. Davenant esteems it at 36 millions sterling. Mr. Megens, an author of great judgment and sagacity, esteems this treasure at no more than about 60 millions of guilders, or about 5,500,000 *l.* sterling; a sum (says he) where-with great things may be done. *Univ. Merchant* sect. 61. I agree entirely with him, that for the ready-money demands of the trade of Amsterdam, that sum, constantly in circulation, may go a great length.

What has misled most people in their estimation of this treasure, is the appearance of a constant accumulation, without any restitution: but that there is a constant egress, as well as ingress of coin to this bank, I think I have rendered pretty evident.

Besides the permanent credit written in the books of transfer, concerning which we have been speaking, the bank of Amsterdam receives, in deposit, vast sums of coin every year, which are not incorporated with the bank-treasure, but remain in the bags in which they are delivered, under the joint seals of the bank and of the person who delivers them.

This operation comes next to be explained.

The trade of Holland draws a constant flux of coin and bullion into the country; and that trade sends a constant flux out of it. The establishment of the bank of Amsterdam renders the use of this coin and bullion, upon many occasions, superfluous, as money.

It therefore remains as a commodity, the value of which rises according to exigencies, or the demand for it.

When the precious metals come from Spain, Portugal, and other nations, who owe a balance to the Dutch, they are lodged in the bank of Amsterdam in the following manner.

The proprietors carry them to the bank in sacs composed of a determinate number of pieces, and the sac must be of a determinate weight, according to the regulations of the bank, from time to time; for which the bank writes off credit in bank, at certain rates, according to the coin lodged, to the account of the proprietor.

But as this coin is received, upon condition that it may be drawn out again, so soon as the depositor shall demand it; instead of writing off the *whole value* upon the books of the bank, they only write off a *certain part*, (suppose 90 per cent.) and for the remain-

ing 10 *per cent.* they deliver what they call a *recipisse*, which is an obligation by the bank to re-deliver, upon demand, the individual sacs, sealed with the seals of the bank and of the depositor. This *recipisse* is transferable at the will of the person to whom it is delivered. Farther,

He who has put his coin so in deposit, becomes bound to pay to the bank $\frac{1}{2}$, $\frac{1}{4}$, or $\frac{1}{8}$ *per cent.* every six months, according to the coin: that is, upon gold $\frac{1}{2}$ *per cent.* on pieces of eight and rix-dollars $\frac{1}{4}$; on ducatoons $\frac{1}{8}$ *per cent.* and in case he neglects so to do, then the coin becomes consolidated with the treasure of the bank, and can no more be drawn out, in virtue of the *recipisse*.

This being performed, the depositor may transfer, at will, all the 90 *per cent.* of his credit, in the course of his business; and so soon as the *value of coin* rises in the market, he must fill up his credit in bank to the full value of the 90 *per cent.* and then presenting his *recipisse*, he receives back his own individual coin, sealed with his own seal, as when at first delivered.

If he finds that it is either inconvenient for him to fill up his credit, or that he has no occasion for his coin, upon the rise in its value, he may then sell his *recipisse* to another, who has credit in bank equal to the value of the deposit; and he, in virtue of the *recipisse* transferred to him, withdraws the coin, as the person might have done who put it in deposit.

The *recipisse* itself, which is what gives a right to the coin to any one who is the proprietor of that paper, and who has credit in bank for the sum contained in it, rises and sinks in its value, according to the price of the coin to which it carries a right.

In this manner coin, which otherwise would be dead in a warehouse, is made to circulate, in favor of the owner, during the deposit, remaining at the same time always at his command; and the keeping of the coin brings into the bank a small profit, but which, by constant accumulation, becomes considerable.

I have said above, that the bank of Amsterdam puts forth, from time to time, what regulations they think fit, as to the rate at which they receive the different species of coin. These regulations are formed according to the fluctuation of the value of the metals. When silver rises above the proportion it had before, with respect to gold, then the silver species is received at a higher rate than formerly. When gold rises in proportion to silver, then the gold coins are received at a higher rate than formerly.

This regulation produces the same effect as that, which I formerly recommended in the third book, would do, in fixing a standard for the unit of the money of Great Britain, according to the mean proportion of the metals: and it was for this reason, that [Book III. part I. chap. 1.] I asserted the bank-money of Amsterdam to be an invariable unit, which the art of man had invented; that it stood like a rock in the sea, immoveable by the fluctuating proportion between the metals.

It is no objection against this, to alledge the variation of the *agio*, and the fluctuation of the value of bank money according to demand. These variations ought to be referred to the coin, not to the bank-money: the bank-money is to be considered

as fixed, because it has all the characters of invariability.

If, indeed, the affairs of the bank came to be ill administered, and that the credit written in the bank were allowed to swell so far beyond the demand for it, as to sink the value of bank-money so far below the rate of coin as to make it impossible to recover itself; then I should allow that the bank-money was no longer an invariable standard: but in this case, I should consider the bank as in a kind of political disease, because it would then be withdrawn from under the influence of its own principles, which hitherto has never been the case.

It has been imagined by many, that the treasure of the bank of Amsterdam has been, upon certain occasions, made use of for the public service. This is a conjecture merely; and perhaps it has been owing to the opinion which commonly prevails, that the treasure far exceeds all the uses which it can serve for. But as I am persuaded, *1mo*, That this opinion is void of all foundation; *2do*, That the treasure never can exceed the credits written; and, *3tio*, That the credits never can exceed the uses those merchants have for them: so I am of opinion, that a value, in coin, to the full extent of those credits, actually exists in the repositories of the bank; because if I should suppose the contrary, it would imply a notorious infidelity in the bank-administration: an infidelity, which, if ever it should be discovered, would overturn the whole credit of the bank, and, at one stroke, destroy the whole trade of that city. Now the use of three or four millions

sterling, to the states of Holland, which they can procure when they will, at a very moderate interest, is not an object in the eyes of that sagacious government, sufficient to engage them to tamper with the bank-treasure: and the rather, that were they driven to the necessity of having recourse to the bank, I make not the least doubt but that so great a company would be of more service to the state in writing off upon an occasion a *temporary, untransferable credit at interest*, which might afterwards be expunged, in order to procure coin within the country, than by delivering the coin corresponding to the credit of private merchants, which they must look upon as a most sacred deposit.

If we compare the credit of the bank of Amsterdam, with the credit of the bank of England, we shall find the first infinitely inferior to the latter as to extent, though not one bit inferior with respect to the solidity of it.

The extent of the credit of the bank of Amsterdam is limited to the sum of the credits written in their books, either in permanent transfer, as I shall call it, or in credit on cash deposited upon *recipisse*. All this credit put together, cannot extend beyond the limits of the circulation of the city of Amsterdam, in their domestic dealings, and in their exchange business; which last is indeed very great.

But the credit of the bank of England is equal (in a manner) to all the circulation and exchange business of London, and all the taxes paid in Great Britain. This bank, in circulating its paper, is not limited to the weight of coin in England. The whole
interest

interest of the national debt, and expense of the state, may be paid in the paper of the bank, and be perfectly well secured, although their treasure in coin may seldom amount to above four millions sterling.

We must however allow, that banks of circulation, when ill conducted; are liable to great abuse; as has been abundantly explained in treating of the Mississippi. But how is abuse to be prevented, while men conduct? And disasters may happen to a bank of deposit, to which the other is not so much exposed. May not the treasure of the bank of Amsterdam be lent out on bad security? May not the state lay hold of it? May not an earthquake swallow up the stadthouse? May not the sea break in, and demolish it? May not another invader, like the late King of France, in 1672, be more successful, and carry off the bank?

These are abuses and calamities to which the bank of Amsterdam is exposed; and from many of which the bank of England is in a great measure protected.

Besides the banks I have mentioned, not so much with a view to give a historical account of their operations, as to illustrate the principles on which they are established, there are many others in Europe of great and extensive credit; such as that of Hamburgh, Venice, Genoa (until the state spent the treasure deposited) Nuremberg, &c. Every one of these participate more of the nature of that of Amsterdam, than of those in Great Britain. They are more calculated for preserving the standard of their bank money, against the adulterations of coin, and for providing a fund of cash, transferable in bank.

credit, than for the assistance of government, or the melting down of solid property, which are the great advantages peculiar to *banks of circulation*.

These last are also infinitely more lucrative to the bankers than those of deposit, from the interest they draw from credits given, discount of bills, and loans to government.

The profits on the bank of Amsterdam are very trifling. They are confined to the small emoluments of 2 stuivers for every transfer; besides the interest they draw from the brokers on the place *de Dam*, for the coin and credit they furnish them with; and, in the last place, the $\frac{1}{2}$, $\frac{1}{4}$, or $\frac{1}{8}$ *per cent.* every six months, for the coin deposited, in order to be afterwards drawn out. But on the other hand, they are freed from the enormous expense of providing coin for the payment of foreign balances, and from the great detail of business which the circulation of paper implies.

AN INQUIRY
INTO THE
PRINCIPLES
OF
POLITICAL ECONOMY.

BOOK IV.
OF CREDIT AND DEBTS.

PART III.
OF EXCHANGE.

CHAP. I.

Of the first Principles of Exchange.

HAVING ended what I had to say of banks, in which most of the principles of private credit have been sufficiently deduced, I now proceed to the doctrine of exchange, which is the principal operation of mercantile credit.

The security which merchants commonly take from one another when they circulate their business, is a bill of exchange, or a note of hand: these are looked upon as payment. When they give credit to one another in account, or otherwise, the cause

of confidence is of a mixed nature ; established partly upon the security of their effects, partly on the capacity, integrity, and good fortune, of the person to whom the credit is given.

No man but a merchant has any idea of the extent and nature of this kind of credit. It is a thing to be felt, but cannot be reduced to principles; and merchants themselves can lay down no certain rules concerning it. It is an operation which totally depends upon their own sagacity.

But when they deal by bills of exchange, the case is very different. The punctuality of acquitting those obligations is essential to commerce; and no sooner is a merchant's accepted bill protested, than he is considered as a bankrupt. For this reason, the laws of most nations have given very extraordinary privileges to bills of exchange. The security of trade is essential to every society; and were the claims of merchants to linger under the formalities of courts of law, when liquidated by bills of exchange, faith, confidence, and punctuality, would quickly disappear; and the great engine of commerce would be totally destroyed.

A regular bill of exchange is a mercantile contract, in which four persons are concerned, viz. 1. The drawer, who receives the value: 2. His debtor in a distant place, upon whom the bill is drawn, and who must accept and pay it: 3. The person who gives value for the bill, to whose order it is to be paid: and 4. The person to whom it is ordered to be paid, creditor to the third.

By this operation, reciprocal debts, due in two distant parts, are paid by a sort of transfer, or permutation of debtors and creditors.

(A) in London, is creditor to (B) in Paris, value 100 *l.* (C) again in London, is debtor to (D) in Paris for a like sum. By the operation of the bill of exchange, the London creditor is paid by the London debtor, and the Paris creditor is paid by the Paris debtor; consequently, the two debts are paid, and no money is sent from London to Paris, nor from Paris to London.

In this example, (A) is the drawer, (B) is the acceptor, (C) is the purchaser of the bill, and (D) receives the money. Two persons here receive the money, (A) and (D), and two pay the money, (B) and (C); which is just what must be done when two debtors and two creditors clear accounts.

This is the plain principle of a bill of exchange. From which it appears, that reciprocal and equal debts only can be acquitted by them.

When it therefore happens, that the reciprocal debts of London and Paris (to use the same example) are not equal, there arises a balance on one side. Suppose London to owe Paris a balance, value 100 *l.* How can this be paid? I answer, that it may either be done with or without the intervention of a bill.

With a bill, if an exchanger, finding a demand for a bill upon Paris, for the value of 100 *l.* when Paris owes no more to London, sends 100 *l.* to his correspondent at Paris in coin, at the expense, I

suppose, of 1 *l.* and then, having become creditor on Paris, he can give a bill for the value of 100 *l.* upon his being repaid his expence, and paid for his risk and trouble.

Or it may be paid without a bill, if the London debtor sends the coin himself to his Paris creditor, without employing an exchanger.

This last example shows of what little use bills are in the payment of balances. As far as the debts are equal, nothing can be more useful than bills of exchange; but the more they are useful in this easy way of business, the less profit there is to any person to make a trade of exchange, when he is not himself concerned, either as debtor or creditor.

When merchants have occasion to draw and remit bills for the liquidation of their own debts, active and passive, in distant parts, they meet upon change; where, to pursue the former example, the creditors upon Paris, when they want money for bills, look out for those who are debtors to it. The debtors to Paris again, when they want bills for money, seek for those who are creditors upon it. This is a representation of what we have frequently called the money market, in which the *demand* is for *money*, or for *bills*.

This market is constantly attended by brokers, who relieve the merchant of the trouble of searching for those he wants. To the broker every one communicates his wants, so far as he finds it prudent; and by going about among all the merchants, the broker discovers the side upon which the greater demand lies, for money, or for bills.

We have often observed, that he who is the demander in any bargain, has constantly the disadvantage in dealing with him of whom he demands. This is no where so much the case as in exchange, and renders secrecy very essential to individuals among the merchants. If the London merchants want to pay their debts to Paris, when there is a balance against London, it is their interest to conceal their debts, and especially the necessity they may be under to pay them; from the fear that those who are creditors upon Paris would demand too high a price for the exchange over and above par.

On the other hand, those who are creditors upon Paris, when Paris owes a balance to London, are as careful in concealing what is owing to them by Paris, from the fear that those who are debtors to Paris would avail themselves of the competition among the Paris creditors, in order to obtain bills for their money, below the value of them, when at par. A creditor upon Paris, who is greatly pressed for money at London, will willingly abate something of his debt, in order to get one who will give him money for it.

It is not my intention to dip into the intricacies of exchange: all intricacies must here be banished; and instead of technical terms, which are very well adapted for expressing them, recourse must be had to plain language, for pointing out the simple operations of this trade. It is by this method that principles must be deduced, and from

principles we shall draw the consequences which may be derived from them.

From the operation carried on among merchants upon Change, which we have been describing, we may discover the consequence of their separate and jarring interests. They are constantly interested in the state of the balance. Those who are creditors on Paris, fear a balance due to London; those who are debtors to Paris, dread a balance due to Paris. The interest of the first is to dissemble what they fear; that of the last, to exaggerate what they wish. The brokers are those who determine the course of the day: and the most intelligent merchants are those who dispatch their business before the fact is known.

Now I ask, how trade, in general, is interested in the question, who shall outwit, and who shall be outwitted, in this complicated operation of exchange among merchants?

The interest of trade and of the nation is principally concerned in the proper method of paying and receiving the balances. It is also concerned in preserving a just equality of profit and loss among all the merchants, relative to the real state of the balance. Unequal competition among men engaged in the same pursuit, constantly draws along with it bad consequences to the general undertaking, as has often been observed; and secrecy in trade will be found, upon examination, to be much more useful to merchants in their private capacity, than to the trade they are carrying on.

Merchants, we have said, in speaking of the bank of England, endeavour to simplify their business as much as possible; and commit to brokers many operations which require no peculiar talents to execute. This of exchange is of such a nature that it is hardly possible for a merchant to carry on the business of his bills, without their assistance, upon many occasions. When merchants come upon Change, they are so full of fears and jealousies, that they will not open themselves to one another, lest they should discover what they want to conceal. The broker is a confidential man, in some degree, between parties, and brings them together.

Besides the merchants, who circulate among themselves their reciprocal debts and credits, arising from their importation and exportation of goods, there is another set of merchants who deal in exchange; which is the importation and exportation of money and bills.

Were there never any balance on the trade of nations, exchangers and brokers would find little employment: reciprocal and equal debts would easily be transacted openly between the parties themselves. No man feigns and dissembles, except when he thinks he has an interest in so doing.

But when balances come to be paid, exchange becomes intricate; and merchants are so much employed in particular branches of business, that they are obliged to leave the liquidation of their debts to a particular set of men, who make it turn out to the best advantage to themselves.

Whenever a balance is to be paid, that payment costs, as we have seen, an additional expence to those of the place who owe it, over and above the value of the debt.

If, therefore, this expence be a loss to the trading man, he must either be repaid this loss by those whom he serves, that is, by the nation; or the trade he carries on will become less profitable.

Every one will agree, I believe, that the expence of high exchange upon paying a balance, is a loss to a people, no way to be compensated by the advantages they reap from enriching the few individuals among them, who gain by contriving methods to pay it off: and if an argument is necessary to prove this proposition, it may be drawn from this principle, to wit, whatever renders the profit upon trade precarious or uncertain, is a loss to trade in general: this loss is a consequence of high exchange; and although a profit does result from it upon one branch of trade, the exchange business, yet that cannot compensate the loss upon every other.

We may, therefore, here repeat what we have said above, that the more difficulty is found in paying a balance, the greater is the loss to the nation.

This being admitted, I shall here enumerate all the difficulties which occur in paying of balances. Most of them have been already mentioned from their relation to subjects already discussed; and could it be supposed, that every reader has retained the whole chain of reasoning already gone through, a repetition in this place would be superfluous: but

as that cannot be expected, I shall, in as short and distinct a manner as possible, recapitulate, under four articles, what I hope will be sufficient to refresh the memory upon each of them.

1^{mo}, The first difficulty which occurs in paying a balance, is to determine exactly the true and intrinsic value of the metals or coin in which it is to be paid; that is to say, the real par.

2^{do}, How to remove the domestic inconveniences which occur in paying with the metals or coin.

3^{tio}, How to prevent the price of exchange from operating upon the whole mass of reciprocal payments, instead of affecting only the balance.

The remedies and palliatives for these three inconveniencies once discovered, comes the last question, viz. How, when other expedients prove ineffectual for the payment of a balance, the same may be paid by the means of credit, without the intervention of coin; and who are those who should conduct that operation.

CHAP. II.

How to determine exactly the true and intrinsic value of the Metals, Coin, or money, in which a Balance to foreign Nations is to be paid.

THIS first question regards the whole mass of reciprocal payments, as well as that of the balance.

Every payment to be made of a determinate and fixed value, that is to say, of a liquidated debt,

must be paid in a value equally determinate in its nature.

This I suppose to be the case, whether payment be made in the precious metals unmanufactured, bullion, or in a nation's coin, or in denominations of money of account. All payment in merchandize, except bullion, must suffer conversions of value before the debts can be liquidated.

Money of accompt, which is what we understand by denominations, we have defined to be a scale of equal parts, calculated to determine the value of things, relatively to one another. It must, therefore, be by the money of accompt of different nations, that the value of bullion and of coin can be determined.

When coin is introduced, the denominations of money are realized in a determinate quantity of the precious metals, and the fabrication of the bullion into coin, raises the value of that commodity, bullion, like the manufacturing of every other natural production.

When coin, therefore, is employed in paying sums according to the legal denomination which it carries, it is money, not merchandize; but when it is given at any other rate than its denomination, it is merchandize, not money.

In the third book, we have shown how utterly impossible it is to realize with exactness, the denominations of money of accompt, in the metals which are constantly varying in their value, and exposed to waste in circulation.

We have shown, by many examples, how, in

fact, the value of the pound sterling has been subject to great vicissitudes of late, from the great disorder of the coin.

The coin of France is, indeed, upon a better footing in point of uniformity of weight, than ours; and the proportion of the metals in it comes nearer their present value in the market: but then as oft as the balance turns against France, the high imposition upon her coinage, exposed the coin to great fluctuations of value, when compared with bullion in the Paris market. This is also to be ascribed to the imperfection of the metals when used as money, while they are merchandize at the same time.

This being the case, the way to calculate the real par of exchange between nations, who have in common no determinate and invariable money, exclusive of coin, is to consider fine gold and silver as the next best standard.

This is a merchandize which never varies in its quality. Fine gold is always the same in every mass; and weight for weight, there is no difference in its value or quality any where.

This standard being once adopted, the calculation of the real par becomes an easy operation to those who know the course of the bullion market in the two places exchanging.

If by the exportation of all the heavy coin of London, bills must be paid in a worn out currency, the rise in the price of gold in their market, above mint price, will mark pretty nearly how far it is light.

If on the other hand, the wars of France, or an unfavorable balance upon her trade, shall oblige her to export her coin, that operation will *sink* the value of it, or *raise* the price of bullion, which ever way you chuse to express it.

It is not here a proper place to resume the question, which of the two expressions is the most proper: we are here considering the value of the bullion as what is fixed, because it answers the purpose. But whether we say that bullion *rises* in the markets of Paris and London; or that the value of their currencies *sink*, though from very different causes, the calculation of the real par will proceed with equal accuracy. An example will illustrate this.

When *fine* gold is at the lowest price to which it can ever fall at Paris, that is to say, at the mint price, it is worth 740 livres 9 sols, or 740.45 livres *per* mark, in decimals, for the ease of calculation. The mark contains eight ounces Paris weight.

Were the ounces of Paris equal to those of troy weight, $\frac{1}{8}$ of this sum, or 92.5562 livres, would be the value of that ounce by which gold is sold at London.

But the Paris ounce is about $1\frac{1}{2}$ *per cent.* lighter than the troy ounce; and the exact proportion between them is unknown, from the confusion of weights, and the want of a fixed standard in England.

By the best calculation I have been able to make, a Paris ounce should contain 473 grains troy, which makes the proportion between the two ounces to be

as 473 is to 480, which is the number of grains in the troy ounce.

Gold bullion at Paris is regulated by the mark *fine*, at London by the ounce *standard*.

When standard gold bullion is at the lowest price it can be at London, it is worth the mint price, or 3 *l.* 17 *s.* 10 $\frac{1}{2}$ *d.* *per* troy ounce, which expressed in decimals, is 3.8937 *l.* sterling. Standard is to fine as 11 is to 12; consequently, the ounce fine is 4.2476 *l.* sterling: and if the Paris ounce of *fine* bullion be worth, as has been said, 92.5562 livres, the ounce troy, according to the above proportion, will be worth 93.926 livres. Divide then the livres by the sterling money, and the quotient will give you the real par of exchange of the pound sterling, while bullion remains at that value in Paris and in London, viz. $\frac{4.2476}{3.8937} = 22.112$ livres for the pound or 32.56 *d.* sterling for the French crown of 3 livres.

Gold bullion never can rise in the Paris market, at least all the last war it never *did* rise, above the value of the coin; that is, to 801.6 livres the mark fine, or 100.2 livres *per* ounce Paris, and 101.7 livres the troy ounce.

How high the price of gold bullion may rise at London no man can say; but the highest it rose to, during the last war, was, I believe, 4 *l.* 0 *s.* 8 *d.* *per* ounce standard, or to 4.3999 *l.* sterling *per* ounce fine. By this divide the value of the ounce troy fine in French livres, the real par at this rate of the metals in both cities will be $\frac{4.3999}{101.7} = 23.11$ livres for the pound sterling, or 31.155 pence sterling for the French crown of 3 livres. But suppose two cases which may happen,

viz. 1. That gold bullion at Paris should be at the price of coin, while at London it may be at mint-price : or, 2. That at Paris it may be at mint-price, when at London it is at 4*l.* 0*s.* 8*d.* what will then the real par of exchange be ?

I answer, that on the first supposition, it will be one pound sterling, equal to 23.939 livres, and the crown of 3 livres equal to 30.076 pence sterling. In the other, equal to 21.34 livres for the pound sterling, and for the crown of 3 livres 33.728. A difference of no less than 8.9 *per cent.*

Is it not evident that these variations *must* occur in the exchange between London and Paris ? And is it not also plain, that they proceed from the fluctuation of the price of bullion, not from exchange ?

We have, I think, demonstrated, in the third book, that a wrong balance upon the French trade raises bullion to the price of coin; and that a right balance brings it down to mint-price. The price of coinage is above 8 *per cent.* So that 8 *per cent.* of fluctuation in the price of bullion is easily accounted for in the Paris market, without combining the variations in the English market.

In London, where no coinage is paid, were all the coin of full weight, and exportation free, coin and standard bullion would constantly stand at the same price: but when the heavy coin is exported, and the currency becomes light by the old remaining in circulation, the price of bullion rises in proportion.

Is it surprising that, at London, gold in bullion should be worth as much as gold of the same standard in guineas, weight for weight ? It is worth as much

at

at the mint, why should it not be worth as much at market? Any man may offer to pay *for the ounce* of all the guineas coined by Charles II. James II. and William III. now in circulation, the highest market price that ever was given for standard gold bullion in London, and gain by the bargain.

This, I hope, will be sufficient to satisfy any body that there is a mistake in ascribing the high price paid for the French crown in the London exchange, to a wrong balance upon the trade of England with France.

From this new light in which I have placed the question, I hope the arguments used in the 16th chapter of the first part of the third book, will acquire an additional force; and that thereby the eyes of this nation may be opened with regard to the interests of the French trade; a point, I should think, of the highest concern.

To calculate, as every body does, the par of the French crown, either by the gold or the silver in the English *standard* coin, when no such *standard* coin exists; and to state all that is given for the crown above 29 $1\frac{1}{2}d.$ if you reckon by the silver, or 30 $3\frac{3}{4}d.$ if you reckon by the gold, for the price of a wrong balance, is an error which may lead to the most fatal consequences.

If government should think fit to impose, in their own mint, a coinage, equal to that of France, and make all their coin of equal weight, and at the due proportion, it will take off all the loss we suffer by paying coinage to France, which we at present impute to the exchange, while she pays none to us. But

then it will occasion nearly the same fluctuations upon the real par of exchange as at present ; only from another cause on the side of Great Britain. At present our exchange becomes favorable from the weight of our own currency , and the balance against France upon her trade ; which , in Paris , raises the price of the bullion with which we pay our French debts. On the other hand , our exchange becomes unfavorable from the lightness of our own currency , from the coinage we pay to France , and balance against us ; which last carries off all our new guineas ; and in the Paris market, sinks the value of that bullion in which we pay our French debts.

Were matters put upon a right footing , we should gain from France the price of our coinage , when our balance is favorable , and pay coinage to France when their balance is favorable ; instead of seeing our exchange turn more in our favor, only from the additional weight of the coin in which we pay.

If French coinage should appear too high a price for the interest of other branches of British trade , a question I shall not here determine , let us impose at least as much as to keep our guineas out of the melting pot, and banish all the old coin which throws us into such confusion.

What has been said is undoubtedly too much upon this subject for the generality of readers. The number of those who can go through a chapter like this with pleasure is very small. But if the idea I have been endeavouring to communicate , be found just by one man of capacity , whose opinion shall have weight in the deliberations of Great Britain , the consequences

may be great to this nation; and this consideration will, I hope, plead my excuse.

I shall now set this question in another point of view, from which the stress of my arguments will be felt, and all intricate combinations will be laid aside.

Does not the price of exchange, or what is given above the par, proceed from the expense of sending the metals from one place to the other, the insurance of them, and the exchanger's profit? If this be true, which I believe no body will deny, must not what is paid for the bill, over and above these three articles, be considered as the real par, relative to exchange? Now does the price of the bullion which the exchanger pays in his own market, or the price he gets for that bullion in the market to which he sends it, at all enter into the account of the transportation, risk, and profit, which the exchanger has on the operation? Certainly not. May there not be a very great difference between the buying and selling the very same bullion in different markets at one time and another? Ought we not to charge that to some other account than to the price of exchange, which is confined to the expense of transporting *the balance only*, and when two objects totally different are included under the same term, does it not tend to perplex our notions concerning them?

The great variation in the price of bullion in France, for example, and the expense of procuring it, proceeds from three causes. The first is, the coinage imposed in France, while none is imposed in England. What, therefore, is paid upon this account, is profit to France, and loss to England.

The second cause of variation, is the debasement of the value of the pound sterling, when the heavy gold has been sent abroad. That loss affects the nation, and every man in England, in the quality of creditor for sums specified in pounds sterling, to the profit of all debtors.

The third cause of variation, is from the great expence exchangers are put to, in procuring the metals from other countries, when they cannot be got at home: the consequence of this shall be explained in a succeeding chapter.

As all these causes are combined in the exchange upon bills when they come to market, I think it is proper to analyze them, before the doctrine we are upon can be distinctly understood.

I shall therefore conclude my chapter with this proposition:

That the best method of determining exactly the true and intrinsic value of the metals, coin, or money, in which the balance due to or from a foreign nation is to be paid, is to compare the respective value of fine bullion with the respective denominations of the coin in the one and the other; and to state the difference as the price paid for the exchange*.

* There occurs another considerable difficulty to be removed, before the real par of exchange can be exactly determined from the price of bullion, to wit, the uncertainty of weights, and the multiplicity of them.

Every nation in Europe has a different weight, I might almost say every city. This has proceeded, in a great measure, from the inaccuracy with which they have been made formerly. I think it is highly probable, that many, at least, of the prin-

cipal weights in Europe, have derived their origin from the same standard; although they are now considerably different. Those I am best acquainted with are the following, of which I shall here set down a short table, reduced to troy grains, according to the best calculation I have been able to make.

One ounce troy contains	-	480	troy grains.
One ounce Paris, or <i>poids de marc</i> ,		473	
One ounce Holland troes	-	473.27	
One ounce Colonia	-	449.33	

These are the weights used in the mints of England, France, Holland, and Germany.

If therefore we should call the troy ounce 100, the proportion of the rest will be as follows:

Troy	-	-	-	-	100
Paris	-	-	-	-	98.541
Holland	-	-	-	-	98.597
Colonia	-	-	-	-	93.61

I have chosen to reduce to ounces; because it is the denomination in which the proportion of weights is best preserved.

These ounces I apprehend to have been originally taken from the old Roman pound, which was the weight adopted by the Emperor Charles the Great, who applied himself much to the establishing a general standard of weights in his dominions.

In the examples I have given, we see how the Colonia ounce deviates more than any other from the average on the whole.

This ounce is very near equal to the old Saxon ounce, established in the English mint at the Norman conquest, and there preserved, until Henry VIII. substituted in its place the troy weight. This circumstance makes it probable that the Saxon ounce came originally from Charles the Great, who first conquered the Saxon nation, and drew them from a state of absolute barbarity. The rude manners of the Saxons may have occasioned this great deviation.

The difference, therefore, in those ounces, I ascribe to the progressive error of those who have made weights, and from the neglect of preserving a proper standard.

The best remedy for this inconvenience, would be, for any one mint to form a weight, *ad libitum*, and to send a most accurate copy of it to every mint in Europe: to mention, at the same time, the exact proportion between the weight sent, and that observed at their own mint: to beg of the other mints an equal communication of the proportion between the weight sent, and their several standards: and last of all, to publish in the news papers of all commercial towns, every market day, as is done at Amsterdam, the price of *fine* gold and silver, according to this new weight made for the purpose. This weight may be called the mint-weight of Europe; and from the universal utility which would follow upon such a regulation, it probably might be followed: were this to happen, it might be a step towards establishing an universal conformity of weights every where.

While matters stand on the present footing, it is necessary to be informed of three particulars. First, Of the proportion of the different mint-weights. Secondly, Of the regulations by which the coin is made. And lastly, Of the exactness of the mints in following the regulation. Every mistake in any one of these three articles, is an impediment to the just determination of the real par.

I acknowledge that, in fact, exchange business goes on smoothly; notwithstanding all the difficulties we have been enumerating. It may therefore be asked, in what would consist the great advantage of so scrupulous a nicety?

My answer is, that exchange business will always go smoothly on, as long as exchangers gain, and that trade is not interrupted.

But trading men consider their own interest only; and I am considering the interest of an intelligent state, which wants to promote the good of the whole community, without occasioning any hurt to the interest of individuals.

C H A P. III.

How to remove the inconveniences which occur in paying Balances with the Metals or Coin of a Nation.

TH E inconveniences which occur when balances are to be paid in bullion or coin are these:

First, The want of secure and ready transportation, from the obstructions government throws in the way to prevent it.

Secondly, The difficulty of procuring the metals abroad when they are not to be found at home.

When we speak here of balances to be paid from one country to another, we understand, that the general amount of the whole payments to be made to the world, exceeds the sum of all that is reciprocally due from it. So far as a balance due to one country is compensated with a balance due by another, they may be mutually discharged by bills of exchange, according to the principles already laid down. All compensations being made by bills drawn for reciprocal debts, we must here suppose a balance due by the country whose interest we are considering. This, like debts between private people, must either be paid in intrinsic value, or by security for it; that is, by contracting a permanent debt bearing interest. The first is the question here before us; the second will be examined in the succeeding chapter.

The first difficulty mentioned, to wit, the want of secure and ready transportation of the metals, proceeds in a great measure from the obstruction government throws in the way, to prevent the exportation of them. To remove which difficulty, it is proper to show how far it is the interest of government to obstruct, how far to accelerate the transportation of the metals.

We have said that it is the advantage of every state, in point of trade, to have balances paid with the least expense. If then we suppose that it is either necessary or expedient that this balance should be paid in the metals, government, in that case, should facilitate by every method the sending them off in the cheapest and securest way.

But since governments do not follow that rule, we must examine the reasons which engage them to prefer a contrary conduct.

The principal, the most general, and most rational objection against the exportation of the metals, is, that when it is permitted, without restriction, it engages the people, when they go to foreign markets for articles of importation, to run to the coin, instead of carrying thither the product and manufactures of the country. From which a consequence is drawn, that as long as coin and bullion are fairly allowed to be exported, the rich inhabitants will employ them for the purchase of foreign commodities, to the hurt of domestic industry.

This is an objection of great weight, relative to the situation of many nations. The Spaniards and Portuguese feel it severely. Many individuals

there are very rich; the numerous classes of the people are either lazy or not properly bred to industry. In that situation the alternative to government is very disagreeable. Either the rich must be deprived of every enjoyment with which their industrious neighbours alone can supply them, until, by very slow degrees, the lowest classes of their countrymen can be engaged to change their way of living, and be inspired with a spirit of industry; or they must be allowed to gratify the desires which riches create, at the expense of the nation's treasure, and the improvement of their country.

From this alternative we discover the principle which directs the conduct of a statesman under such circumstances, viz.

To forbid the importation of every foreign manufacture whatsoever; to submit to the hardships necessarily implied in the circumstances of the nation; and to pay freely what balance may be owing upon natural produce imported for the uses of subsistence, or manufacture.

This is a plan more rational and more easily executed, than a general prohibition to export the metals; because with good regulations, properly executed, you may prevent the importation of manufactures; but it is hardly possible to prevent the exportation of the metals necessary to pay for what you have brought from strangers, by the permission of government: and on the other hand, suppose you do effectually prevent the exportation of the metals, the consequence will be, to put an end to

all foreign trade even in natural produce. What nation will trade with another who can pay only by barter? All credit will then be cut off; for who will exchange by bills, with a place which cannot pay, either in their own currency, or with the metals, the debts which they reciprocally owe?

The maxim therefore, here, is to prevent the contracting of debts with strangers; but when you allow them to be contracted, to facilitate the payment of them.

This reasoning is only calculated to direct a statesman who finds himself at the head of a rich luxurious nobility, and an idle or ill instructed common people, surrounded by industrious neighbours, whose assistance may be necessary upon many occasions, to provide subsistence, or the materials of manufacture, to his people; and this while he is forming a scheme of introducing industry at home, as a basis for afterwards establishing a proper foreign commerce.

But in this subject combinations are infinite; and the smallest change of circumstances throws the decision of a question on a different principle.

I will not therefore say, that in every case which can be supposed, certain restrictions upon the exportation of bullion or coin are contrary to good policy. This proposition I confine to the flourishing trading nations of our own time.

To set this matter in a fair light, and as an exercise upon principles, I shall borrow two combinations, one from history, and another from a recent example in France, in which a clog upon the

exportation of the metals and coin were very politically laid on.

We learn from the history of Henry VII. of England, a sagacious Prince, that he established very severe laws against the exportation of bullion; and obliged the merchants who imported foreign commodities into his dominions, to invest their returns in the natural produce of England, which at that time consisted principally in wool and in grain.

The circumstances of the times in which that Prince lived, must therefore be examined, before we can justly find fault with this step of his political economy.

In Henry the VIIth's time, the foreign trade of England was entirely in the hands of foreigners, and almost every elegant manufacture came from abroad.

Under such circumstances, is it not plain, that the prohibition of the exportation of bullion and coin was only a compulsion, concomitant with other regulations, to oblige foreign merchants, residing in his kingdom, to buy up the superfluity of the English natural produce of wool and grain? Had not the King taken those measures, the whole money of the nation would have been exported; the superfluous natural produce of England would have lain upon hand; the abundance of these would have brought their price below the value of the subsistence of those who produced them; agriculture would have been abandoned; and the nation would have been undone.

I allow that nothing is so absurd as a desire to consume foreign productions, and to forbid the exportation of the price of them. I also allow, that every restraint laid upon exporting silver and gold, falls upon the consumer of foreign goods, and obliges him to pay the dearer for them; but this additional expense to the consumer, does not augment the mass of foreign debts. The debt due abroad will constantly be paid with the same quantity of coin, whether the exportation of it be allowed or forbidden, because the loss of those who pay the balance arises from the risk of confiscation of the money they want to export against law; or from the high exchange they are obliged to pay to those who take that risk upon themselves. In both cases, the additional expense they are put to remains in the country, and is repaid them by the consumers; consequently, can never occasion one farthing more to be exported. Prohibitions, therefore, upon the exportation of specie, are not in every case so absurd as they appear at first sight. It is very certain that no body gives money for nothing; consequently, a state may rest assured that the proprietors of the specie, their subjects, will take sufficient care not to make a present of it to foreigners. The intention, therefore, of such prohibitions, is not to prevent the payment of what people owe; but to prevent that payment from being made in coin or bullion; and also to discourage the buying of such foreign commodities as must be paid in specie, preferably to others which may be paid for with the returns of home produce.

When a statesman, therefore, finds the balance of trade, upon the main, favorable to the country he governs, he need give himself no trouble about the exportation of the specie, from this single principle, to wit, that he is sure it is not given for nothing. But when the balance turns against them, in the regular course of business, not from a temporary cause, then he may lay restraints upon the exportation of specie, as a concomitant restriction, together with others, in order to diminish the general mass of importations, and thereby to set the balance even.

In a trading nation, I allow, that no restriction of that kind ought to be general; because it then affects the useful and the hurtful branches of importation equally: but in Henry's days, the sale of corn and wool was sufficient to procure for England all it wanted from abroad; and the interests of trade were not sufficiently combined, to enable the state to act by any other than the most general rules. Forbidding the exportation of coin was found to promote the exportation of English productions, and this was a sufficient reason for making the prohibition peremptory. In this view of the matter, did not Henry judge well, when he obliged the merchants who imported foreign goods, to invest the price they received for them in English commodities? Once more I must say it, he was not so much afraid of the consequences of the money going out, as of the corn and wool remaining at home; had he been sure of the exportation of these articles to as good purpose another way, the prohibition would have been absurd; but I am persuaded that was not the case.

The example taken from France is this.

After the fatal bankruptcy in 1720, by the blowing up of the Mississippi, the trade of France languished from the effects of the instability of their coin, until the year 1726, when it was set upon that footing on which it has remained ever since.

Upon that last general coinage, the same principles of enriching the King by the operation, directed the conduct of the minister.

The old specie was cried down, and proscribed in circulation: but it was thought, that as it was the King's coin, he had a liberty to set a price upon it, at a different rate from any other bullion of the same fineness; and that he had also a right to command the proprietors of it to bring it to the mint at his own price.

The consequence was, that those who could, were very desirous to send it to Holland, in order to draw back the value they had sent in bills upon Paris.

Under such circumstances, were not prohibitions upon the exportation of this coin most consistent with the plan laid down? We shall, in the next chapter, examine the consequences of this operation upon the exchange of France.

What has been said, will, I hope, suffice to explain some of the principal motives which statesmen may have, when they lay restrictions on the exportation of the metals, with a view to favor the trade of their nation.

But besides the interests of trade, there are other reasons for laying prohibitions on the exportation of the national coin, although that of bullion be left free under certain restrictions.

As often as it happens, from whatever cause it may proceed, that the value of a nation's coin falls to par with bullion of the same fineness, that coin, if exported, may be melted down. This is a loss; because it puts the nation to the expense of coining more for the use of circulation.

When nations give coinage gratis, or when they allow the coin of other nations the privilege of passing current under denominations exactly proportioned to its intrinsic value, then coin never can be worth more than any other bullion of the same standard; consequently, will be exported or smuggled out upon every occasion.

If, therefore, a nation does really desire to avoid an expense to the mint, they must make it the interest of merchants to export every other thing preferably to their own coin. This is done by imposing a duty upon the coinage; and this will either prevent its going out unnecessarily, or if it be necessary to export it, the coin will return in the payments made to the nation, in consequence of its advanced value above any other bullion which can be sent.

The forbidding the exportation of coin, implies a restriction upon the exportation of bullion; because, unless the bullion be examined at the custom house, and the stamps upon it looked at, it may happen to be nothing but the nation's coin melted down, with an intention to avoid the law. For this reason, whoever brings bullion to be stamped, whether it be for exportation or not, must declare that it is not made of the nation's coin. How slender a check are all such declarations! The only one effectual is private

interest; and as no man will take his wig to stuff his chair, when he can get cheaper materials equally good, so no man will melt down coin which bears an advanced value, when he can procure any other bullion.

On the whole, we may determine, that a flourishing commercial state, which has, on the average of their trade, a balance coming in from other countries, should lay it down as a general rule, to facilitate the exportation of their coin, as well as bullion: and if a very particular circumstance should occur, which may continue for a short time, they may then put a temporary stop to it, and facilitate the payment of the balance in the way of credit.

I have enlarged so much upon the methods of removing the first difficulty of paying a balance, with the coin or bullion found in a nation, that what remains to be said upon the second difficulty, to wit, the procuring them from other nations, need not be long.

Were the mint-weights of all countries sufficiently determinate; were the regulations concerning the standard of bullion exactly complied with; and were the current market prices of that important commodity, considered as a valuable piece of intelligence every where, the bullion trade would be much easier than it is.

We have said, that when the reciprocal debts of two nations are equal, there is no occasion for bullion to discharge them. But trading nations are many; and from this it may happen, that one who, upon the whole, is creditor to the world, may be debtor

to

to a place which is also creditor to the world ; and in this case bullion is necessary to pay the debt.

If a man owes money to a person who has many creditors, the person owing, may buy up a claim against him, and pay what he owes in that way : but if the person to whom he owes money be indebted to nobody, then the debt must be paid with ready money. Just so of nations. For instance, when bullion is demanded to be exported to Holland, the English merchants, who are creditors on Spain and Portugal, take from thence their returns in bullion, for the sake of paying a balance to Holland, which is, upon the whole, creditor to the world.

But as it seldom happens, that he who deals with Holland is the person who has credit in Spain or Portugal, he is obliged to apply to Portugal merchants to procure bullion. They again who trade thither, having profit on the returns of the commodities they bring from thence, will expect the same profits upon the bills they give to the man who wants to take his return in bullion. This plainly raises the price of bullion in the English market ; because it is brought home in consequence of a demand from England. On the other hand, when the demands of England for Portuguese commodities is less than the value of what Portugal owes her, the Portugal merchants in London are obliged to take the balance in the metals. These come to the London market, and are offered to sale to those who want them : then the price of bullion falls ; because the demand comes from the other side.

To go through all the operations which merchants employ to abbreviate the process I have been descri-

bing, would, indeed, better explain the practical part of exchange, than what I have said; but I write, not to instruct merchants, but to extract from their complicated operations, the principles upon which they are founded.

C H A P. IV.

How the Price of Exchange, in a prosperous trading Nation, may be prevented from operating upon the whole Mass of reciprocal Payments; in place of affecting the Balance only.

WE have taken it for granted, that the price of exchange is a hurt to trade in general.

In this chapter, we shall inquire more particularly than we have done, in what that hurt consists. The point of view of every man, whether he be a merchant or not, is first honestly, and as far as law and fair dealing permit, to consult his own private interest; and in the second place, to promote that interest with which his own is most closely connected.

According to this rule, every merchant will endeavour to manage his exchange business to the best advantage to himself. If the balance be against his country, he will sell his bills on the country creditor as dear as he can; that is, he will endeavour to raise the price of exchange as high as he can against his country, whatever hurt may thereby result to the general trade of it; and in so doing, he only does what duty to himself requires; because it is by

minding his business only, that he can trade upon equal terms with his neighbours, every one of which avail themselves of the like fluctuations, when they happen to be in their favor.

From this I conclude, that since the loss upon high exchange against a country, affects principally the cumulative interest of the whole, relative to other trading nations; it is the business of the statesman, not of the merchants, to provide a remedy against it.

The whole class of merchants, no doubt, exchangers excepted, would be very glad to find the course of exchange constantly at par. This is also greatly the interest of the state; because it is from the *balance* in its favor, not from *the profit made in drawing that balance* from the debtor, that the state is a gainer. This must be explained.

I am to show how it happens, that a nation is only benefited or hurt by the net balance which it receives from, or pays to her neighbours: and that the whole expense of paying or receiving that balance, is not national, but particular to individuals at home; consequently, it would be the interest of all states, that balances, both favorable and unfavorable, were paid by the nation debtor, at the least expense possible.

The great difficulty in communicating one's thoughts upon this subject with distinctness, proceeds from the ambiguity of the terms necessary to express them. This may be avoided by adopting the technical terms of merchants; but these are still more difficult to be comprehended by any one not conversant

in commerce. I shall acquit myself of this difficult task the best way I can.

When we speak of a balance between two nations, we shall call the nation who owes the balance the *nation-debtor*; the other to whom it is owing, the *nation-creditor*.

Balances imply reciprocal debts; consequently, reciprocal debtors and creditors. To avoid, therefore, confusion in this particular, we shall use four expressions, viz. the debtors to the nation-creditor; the debtors to the nation-debtor; the creditors to the nation-creditor; the creditors to the nation-debtor.

Let me suppose that Paris owes a balance to London, no matter for what sum. The reciprocal debts between Paris and London are all affected by the consequence of this balance: that is to say, some pay or receive more than the real par; some pay or receive less. To discover where the profit centers, we are now to inquire who are those who receive more, who are those who receive less. And as profit and loss are here only relative, that is to say, the profit of the one is compensated by the loss of the other; we must see whether or not, upon the whole, the price of the exchange in this case be favorable to London, to which, by the supposition, the balance is due, and unfavorable to Paris, which is the debtor.

The question thus stated, let us examine the operations of exchange at London and Paris, and the state of demand in both, for money or bills.

In the London market, the demand will be for money in London for bills on Paris; and he who demands, must pay the exchange; consequently,

the London merchants, creditors to the *nation-debtor*, will pay the exchange; that is to say, they will sell their bills on Paris below par; and the London merchants, debtors to the nation debtor, will buy them, and gain the exchange; that is, they will buy bills upon Paris below par.

Now as this negociation is carried on at London, I must suppose it to take place amongst Englishmen; one part of whom will gain exactly what the other loses; consequently England, in this respect, neither gains or loses by the exchange paid in London.

Let us next examine the interest of the merchants, and the interest of the nation's trade.

The creditors to the nation-debtor, who have lost by the exchange, are those who have exported English commodities to France. Upon this profitable branch of commerce the exchange occasions a loss, the consequence of which is, to discourage exportation.

The debtors to the nation-debtor, who have gained by the exchange, are those who have imported French commodities to England. Upon this hurtful branch of commerce, the exchange occasions a profit; the consequence of which is, to encourage importation.

This is not all. The merchants exporters, who have lost, cannot draw back their loss upon the return of their trade, because the return of their trade is the *money* due by France, the balance included. Whereas the merchants importers may draw back their loss upon the return of their trade; because that return is *merchandize*, which they can

sell so much the dearer to their own countrymen.

If the balance be in favor of London, importers gain, as we have seen; when it is otherwise, and when they are obliged to pay the exchange, they indemnify themselves, by the sale of their goods so much the dearer. High exchange, therefore, *may* hurt exporters, but never *can* hurt importers.

Let us next examine the operation of exchange at Paris.

In the Paris market, the demand will be for bills upon London for money in Paris; and he who demands must pay the exchange. The debtors, therefore, to the nation creditor, must pay the exchange, and the creditors to the nation-creditor will receive it; and as both are Frenchmen, the profit and loss to Paris exactly balance one another.

But the debtors to the nation-creditor are here the importers of English goods; consequently, this trade, hurtful to France, would be hurtful to the importer, could he not indemnify himself by selling them so much the dearer to his countrymen.

The creditors, again, to the nation-creditor, who gain the exchange, are the exporters of French goods to England; so that here the exportation meets with an encouragement from a balance against the country.

From the advantage found upon exchange in favor of exporters, and the loss upon it to the prejudice of importers, in the case of a wrong balance, it has been believed, that a wrong balance produced upon importations and exportations are effects equal and contrary, which destroy one another, and thereby bring the balance even.

In answer to this, I have two short arguments to offer.

The first is, that were the argument conclusive, it would hold good in reversing the proposition; to wit, that the consequence of a favorable balance would be to destroy the difference also, and bring the balance even. This I never heard alledged.

My second argument is the strongest: that the enhancing of the prices of importations will not so effectually discourage the sale of them at home, as the enhancing, the prices of exportations will discourage the sale of them abroad; for the reasons I shall give presently. But in the mean time,

If the compensation be considered only in relation to the merchants importers and exporters, there, indeed, I agree, that *their* profit and loss upon the exchange is most exactly balanced; because what the one party gains the other loses; and the country loses the balance only, as has been said.

The reciprocal debts thus transacted by bills of exchange, we see that no profit can be made, nor loss incurred, either to London, or Paris, by that operation.

The profit to Frenchmen is compensated by the loss to Frenchmen; the same may be said of the English merchants: but the balance due after those operations are over, and the more remote consequences of high exchange, affect the relative interest of the two nations.

This balance is generally sent by the country-debtor, either to the country-creditor, or to their

order in a third country, to which they are indebted.

The transportation and insurance of this balance is an expense to those who owe it, and the profit, if any there be on that operation, naturally falls to exchangers of the same nation, who conduct it. So whether exchange be paid upon bills drawn, or expense be incurred in the transportation of balances, no profit can accrue upon that to the nation-creditor, to the detriment of the debtor: it must, therefore, do hurt to both, relatively to nations where, upon the average of trade, exchange is lower.

I come now to the method of transporting balances in the metals.

We have seen how the creditors of the nation-debtor pay exchange upon the sale of their bills on Paris, which owes the balance. If by the operations of exchangers, this exchange should rise, to their detriment, higher than the expense, trouble, and insurance, of bringing the balance from Paris, then they will appoint some factor at Paris, to whose order they will draw bills upon their debtors in that city; and as what the Paris-debtors owe to London is stated in pound sterling, the London-creditors will value the pound sterling, according to the rate of exchange, in their favor; and in their bills upon their Paris-debtor, they will convert the sum into livres including the exchange.

By this operation, we see how the transportation of the balance may become the business of the creditors to the nation-debtor: which is a combination we have not as yet attended to: a few words will explain it.

When the creditors of the nation-debtor sell their bills, they must pay the exchange, as has been said. When they draw bills to the order of a friend in the place where the balance is owing, they superadd the exchange. This their debtors pay but then they themselves must be at the trouble and expense of bringing home the money.

It is from this alternative which both parties have of either sending what they owe to their creditors in bullion, or of allowing them to draw for it at the additional expense of paying the exchange, that a check upon the extravagant profit of exchangers arises: and from this combination arises all the delicate operations of drawing and remitting.

Into these we shall not inquire: the principle on which they depend appears sufficiently plain, and this is the principal object of our attention.

I proceed now to consider how far those reciprocal profits and losses, between merchants in the same country, affect the trade of it in general.

When the balance is favorable, we have said that the exporters lose the exchange, and the importers gain it, and both being citizens, the country would not be concerned in their relative interests, were it not that these interests are connected with that of the country, which reaps great benefit from the trade of those who deal in exportations, and loss from the other.

If, therefore, exchange is found to hurt exportation, when the balance is favorable, in this respect the country has an interest in bringing it as low as possible. But as it may be said that since the return

of an unfavorable balance hurts in its turn the interests of importation, and favors the other, exchange thereby operates a national compensation; it will not be improper, in this place, to throw out one reflection more, in order to destroy the strength of that argument.

Were this proposition admitted, as I am afraid it cannot, from what we have already said, it affords no argument against doing what can be done, to render exchange as little hurtful as possible to exportation, during the favorable balance. But as to the question itself, of national compensation, I cannot allow that even *exporters* and *importers* are thereby brought on a level in point of trade: for this reason, that the exchange affecting the exporters, in proportion as it augments, discourages manufacturers, who must have regular, and even growing profits, according to the increase of demand. These the merchant exporter cannot afford; because he *cannot* draw back from his foreign correspondents, any advance upon manufacturers at home, arising from domestic circumstances. But when the merchant importer is affected by the exchange against him; this additional expense he *can* draw back; because he sells to those who are affected by all domestic circumstances.

Let us therefore determine, that it is the interest of a state to disregard that compensation which is given to exportation by a wrong balance, which does so much harm; and to avoid the discouragement given to it by a right balance, which does so much good. The only way to compass those ends, is to keep exchange as near to par as possible.

Could reciprocal debts be always exchanged at par, and could the expense of bringing home, and sending a balance abroad, be defrayed by the state, I think it would prove a great advantage to the trade of a nation. I do not pretend to say that, as matters stand, the thing is practicable; but as it is a question which relates to my subject, and seems both curious and interesting, I shall here examine it.

At first sight, this idea will appear chimerical; and some readers may despise it too much, to be at the trouble to read what may be said for it. I shall therefore set out by informing them that the scheme has been tried, in a great kingdom in Europe, under a great minister: I say it was attempted in France, in the year 1726, under the administration of Cardinal Fleuri, and produced its effect; although it was soon given up, from a circumstance which, I think, never can occur in Great Britain.

After the last general coinage in France, 1726, exchange became so unfavorable to that kingdom, that there was a general outcry. The Cardinal, to put a stop to the clamor, and set trade to rights, as he thought, ordered Samuel Bernard, at that time a man of great credit, to give bills on Holland at par, to all the merchants. To enable him to place funds in Amsterdam, for the payment of his bills, the Cardinal supplied this exchanger with sufficient quantities of the old coin, then cried down, and paid for the exportation of it to Holland.

Upon this exchange on Holland came to par; and all exchangers at Paris looked on the operation with amazement. The minister, however, in a short

time discovered, that by this he was undoing with one hand, what he wanted to establish with the other. He therefore stopped in his career, after having paid, perhaps, ten times the balance due to Holland.

By unfolding the combination of this operation, I shall be better able to cast light on the question before us, than in any other way.

When the general coinage was made in France, by the arrêt of the month of January 1726, all the old coin was cried down, and ordered to be recoinced. The mint price of fine gold *per* marc was fixed at 536 livres 14 sols 6 deniers; and the silver at 37 livres 1 sol 9 deniers. These were the prices at which the mint paid for bullion when offered to be coined. But the King, as if he had a right upon the metal in the old coin, commanded it to be delivered at the mint at no higher rate than 492 livres for the marc of fine gold, and at 34 livres for the marc of fine silver: and to compel the possessors of it to bring it in, all exportation and melting down was made highly penal; the avenues from France were beset with guards to prevent the going out; and the melting pots were strictly watched. Upon this, the possessors of the old coin, rather than sell it to the mint at so great an undervalue, had recourse to exchangers for bills upon Holland for it: and these being obliged to send it thither at a great expence and risk, exacted a very high exchange, which, consequently, affected the whole trade of France.

Politicians persuaded the Cardinal, that exchange had got up so high, not from the discredit cast on the old coin, but because of the wrong balance, and the alteration which had been made at that time upon

the denomination of the new : and that so soon as the balance against France was paid, exchange would return to par. Upon this the Cardinal set Bernard to work, but he soon discovered his mistake ; and by arrêt of the 15th of June the same year, raised the mint price of the old coin, and then exchange became favorable.

These are all facts mentioned by Dutot, and yet he never will ascribe the rise of exchange in France to any other cause than to the tampering with the denominations of their coin : an operation which may rob one set of people in favor of another ; but which has very little effect upon exchange, when other circumstances do not concur, as in the case before us.

Now had the high exchange against France been owing to a wrong balance upon her trade, is it not evident that the Cardinal's operation would have succeeded, that all demands for bills at Samuel Bernard's office would have been confined to the exact extent of that balance ; that the reciprocal debts would have been negociated between the merchants at par ; and, consequently, that all expense upon exchange would have been saved to individual, at the small charge to government of transporting the balance paid for the bills by the merchants at Paris ?

Were prosperous trading states, therefore, conducted by statesmen, intelligent, capable, and uninfluenced by motives of private interest, they would make it a rule to be at the expense of sending off, and bringing home all balances, without the charge of exchange to traders : but the consequence of either

neglect, or incapacity in the man at the helm, would then become so fatal that it might be dangerous to attempt, at once, so great a change in the present method of paying balances: but I never make allowances for the defects of a statesman, while I am deducing the principles which ought to direct his conduct.

I shall next slightly point out the bad consequences which, *upon an unfavorable state of commerce*, might result from such a plan; and without recommending any thing to practice, leave the reader to judge of the expediency.

We see, that by a statesman's giving bills at par, *on all occasions*, and being himself at the expense of transportation and insurance, in bringing home and sending off all balances, exchange would of itself come to par.

The first consequence of this would be, the total annihilation of the exchange business; and if, after that, any interruption should happen by neglect in the statesman, trade might suffer considerably.

Another consequence is, that the most destructive trade would go forward without a check, as long as merchants could pay the par of the bills they demanded upon foreign parts: and this they would constantly be enabled to do, while there was either coin or paper in circulation, as has been explained in treating of banks of circulation upon mortgage.

The consequence of this would be, to oblige the state to pledge the revenue of the country to strangers; in proportion to the balance owing, over and above the extent of the metals to discharge it.

Now the question is, and this I shall leave to the sagacity of my reader to determine, whether, as matters stand, there be any check proceeding from high exchange which can prevent the bad consequences here set forth. I suspect there is not. We see the most enormous sums lent by nations to nations; raising the exchange against the lenders; turning it in favor of the borrowers, but never preventing the loan from going forward. Does not Great Britain, as well as France, owe amazing sums to other nations at the expense of paying the interest out of their revenue? And have not all those sums been transacted by exchangers, who have made great fortunes by it? Are not the most unfavorable balances paid in the ordinary method? Are there not, therefore, already instruments in the hands of all nations, sufficient for their undoing? How could their ruin be accelerated by this alteration in the mode of performing the same thing?

But let it be observed, that our business, in this chapter, is to search for methods to advance the prosperity of flourishing nations, who have a balance owing to them; and here we have been setting forth the bad consequences which result from *these*, to others who are in decay. Every argument, therefore, drawn against this scheme, in favor of the idle or prodigal, is an argument in favor of it, with respect to the industrious and frugal. As all nations are liable to alternate vicissitudes of prosperity and adversity, the principles here laid down require to be carefully combi-

ned with domestic circumstances, before they be applied to practice

It was with a view to this distinction, that, in the title of this chapter, I pointed out the question there proposed, as relative to the state of it in a *prosperous trading nation*; and I am not quite clear how far it might not be advantageous in every case: but this question I shall not here enlarge upon. What has been said, will, I hope be sufficient to point out the principles upon which the decision depends, and if any statesman inclines to try the consequences of it by an experiment now and then, nothing is so easy as to do it without any detriment. This is proved from the operation performed by the French cardinal, on the occasion of a very unfavorable and high exchange.

C H A P. V.

How, when other expedients prove ineffectual for discharging of Balances, the same may be paid by the Means of Credit, without the Intervention of Coin or Bullion; and who are those who ought to conduct the Operation.

WE have now applied the principles formerly laid down, towards discovering the most proper expedients for removing or palliating the three inconveniences to be struggled with in regulating exchange. 1. How to estimate value of a balance due: 2 How to pay it with the coin or bullion of the country: and lastly, How to prevent the price

price of exchange from affecting any thing more than the balance to be paid, after all reciprocal debts have been compensated.

It remains to inquire, what are the most proper methods to acquit what a nation may owe, after it has done all it can to pay the value of their balance in the other way.

At first sight, it must appear evident that the only method here is to give security and pay interest for what cannot be paid in any other value. This is constantly done by every nation; but as the ordinary methods are very perplexed, and are attended with expenses which raise exchange to a great height, and thereby prove a prodigious discouragement to trade in general: it would be no small advantage, could all this loss on exchange be equally thrown upon every class within the state, instead of being thrown entirely upon its commerce.

As this is the expedient to be proposed, it will not be amiss to observe, that foreign balances arise chiefly upon four articles. 1. The great importation and consumption of foreign productions. 2. The payment of debts and interest due to foreigners. 3. The lending money to other nations. And 4. the great expense of the state, or of individuals abroad.

Could all the bad consequences arising from these four causes, and the high exchange occasioned by them, be cast upon that interest alone which occasions them, I would not propose to lay the whole body of the nation under contribution for repairing the loss.

But if from the nature of the thing as matters stand, the whole be found to fall upon trade, without a possibility of preventing it, in this case, I think, it is better for the nation, *in cumulo*, to lend its assistance, and share the burdens, than to allow it to fall upon that part of the body politic from which the whole draws its vigor and prosperity.

It cannot be denied, that when a heavy balance is due by a nation, it has the effect of raising exchange upon every draught or remittance. When bills are demanded to pay a foreign claim, it cannot be determined from what cause the claim has arisen. Whether for national purposes or not, the exchange is the same, and equally affects the whole interest of trade.

If this be a fair state of the case, I think we may determine, that such balances are to be paid by the assistance and intervention of a statesman's administration.

The object is not so great as at first sight it may appear. We do not propose that the value of this balance should be advanced by the state: by no means. They who owe the balance must, as at present, find a value for the bills they demand. Neither would I propose such a plan for any nation who had, upon the average of their trade, a balance against them; but if, on the whole, the balance be favorable, I would not, for the sake of saving a little trouble and expense, suffer the alternate vibrations of exchange to disturb uniformity of profits which tends so much to encourage every branch of commerce.

We have abundantly explained the fatal effects of a wrong balance to banks which circulate paper; and we have shown how necessary it is that they should perform what we here recommend. There is therefore nothing new in this proposal: it is only carrying the consequences of the same principle one step farther, by pointing out, as a branch of policy, how government should be assisting to trade in the payment of balances, where credit abroad is required; and this assistance should be given out of the public money.

The greatest, and indeed, I think, the only objection to this scheme, is, that by it the condition of our foreign creditors will be bettered, for no value received from them. This I allow will be the case when the balance is against England: but it will be compensated to the creditors by the loss they will sustain when the balance is in her favor. But supposing there should be a benefit to foreign creditors, will not this circumstance raise the confidence of all the world in the English funds? If there was a proposal made for lowering the rate of money, by refunding the debts which bear a higher interest than what money can be procured for, were the continent to pour her wealth into our subscription, might we not then more readily expect a supply from that quarter? Besides, is not all the interest due to foreign creditors paid in bank-paper? Is not this demandable in coin, and will not this coin be exported, if credit be not found? Were the bank of England to keep a subscription open, at all times, in Amsterdam, for money to be bor-

rowed there on the payment of the interest in that city, who doubts but loans might be procured at much less expense than at present, when we beat about for credit every where, until by the return of a favorable balance upon the trade of England, she shall be enabled to fill up the void.

I feel my own insufficiency to unfold the many combinations which such an operation must imply. I therefore shall not attempt what, at any rate, I must leave imperfect. What has been said, combined with what has been thrown out on the same subject, in treating of other matters, is sufficient to give a hint, as to the expediency of the plan in general. And as to the objection which arises from the payments to the public creditors abroad, I shall reserve the more ample discussion of it till I come to consider the doctrine of public credit.

END OF THE FOURTH VOLUME.

Steuart, James

An inquiry into the principles of political economy being an essay on the science of domestic policy in free nations ; ... population, agriculture, trade, industry, money, coin, interest, circulation, banks, exchange, public credit, and taxes

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